Durham University

Durham E-Theses

The feasibility of using profit and loss sharing for financing small and medium sized enterprises in Saudi Arabia

Mohammed Saad Binzomah

How to cite:

Binzomah, Mohammed Saad (2008) The feasibility of using profit and loss sharing for financing small and medium sized enterprises in Saudi Arabia. Doctoral thesis, Durham University.

Use policy

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a https://etheses.durham.ac.uk/id/eprint/1344/ is made to the metadata record in Durham E-Theses
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

Please consult the full Durham E-Theses policy for further details.

Academic Support Office, The Palatine Centre, Durham University, Stockton Road, Durham, DH1 3LE
e-mail: e-theses.admin@durham.ac.uk Tel: +44 0191 334 6107
https://etheses.durham.ac.uk

THE FEASIBILITY OF USING PROFIT AND LOSS SHARING FOR FINANCING SMALL AND MEDIUM SIZED ENTERPRISES IN SAUDI ARABIA

By

Mohammed Saad Binzomah

Thesis submitted in fulfilment of the requirement for the award of

Ph.D. at Durham University

The copyright of this thesis rests with the author or the university to which it was submitted. No quotation from it, or information derived from it may be published without the prior written consent of the author or university, and any information derived from it should be acknowledged.

School of Government and International Affairs

Institute of Middle Eastern and Islamic Studies

Durham University

December 2008

2 1 MAY 2009

ABSTRACT

The Feasibility of Using Profit and Loss Sharing for Financing Small and Medium Sized Enterprises in Saudi Arabia
by Mohammad Binzomah Al-Ghamdi

Saudi Arabia is considered to be an oil-rich country. However, it faces challenges in creating jobs and diversifying its economy to perpetuate economic growth. Therefore, the role and contribution of small and medium sized enterprises (SMEs) is crucial for the country, leading the government to initiate a number of policy measures. This development goal is furthered by the impressive developments in the financial sector. In particular, growth and development of Islamic banking and finance have shown remarkable performance in the country. Such financial developments have a positive impact on the development of SMEs by providing alternative financing options.

The SME sector has witnessed a significant development in recent years in Saudi Arabia in terms of the increase in such businesses' activities and institutions and also in terms of new techniques and diversification of financing instruments utilised for their financing. Such developments help overcome the financing gap that exists between entrepreneurs and capital providers. One of the developments in the financing of SMEs has been the financing extended from Islamic banking and financial institutions through authentic financial products consistent with the nature of SMEs.

This research, hence, aims to explore the financing related issues in the SME sector and also investigates the feasibility of using profit-and-loss sharing (PLS) type of Islamic financing to overcome the financial difficulties of SMEs in Saudi Arabia. In other words, the study attempts to investigate funding for SMEs through Islamic financing instruments such as PLS, to broaden financing opportunities available to these enterprises. To fulfill its aim, this study assembled primary data through a questionnaire survey in Jeddah, Saudi Arabia, by approaching SME proprietors and potential SME startups with the aim of, first, locating the perceptions of the participants on their financing issues, but also measuring their perceptions on and demand for Islamic-PLS financing.

The findings of the study demonstrate that the majority of Saudi entrepreneurs do perceive that PLS is most suitable financing tool for SMEs, and they believe that venture capital companies are more compatible with the task of providing finance for SMEs than other instruments. Although the majority of Saudi Arabian banks are reaching out to SMEs to overcome the financing gap, most Saudi entrepreneurs believe that credit application conditions set by Saudi banks (both Islamic and conventional) are rather challenging. In addition, the entrepreneurs believe that banks are not the appropriate capital provider for SMEs, and participant entrepreneurs, therefore, expressed the need for a specialised support beyond banks, as banks are believed to be not willing to provide such specialised services.

The findings of the study also demonstrate that SMEs in the Kingdom need to have an independent governmental body that can facilitate decision-making related to some important objectives, such as facilitating access to funding from the relevant public and private sectors. Eventually, entrepreneurs expressed that raising awareness of modern methods of financing, such as venture capital, should also be an important objective for such a body.

Acknowledgments

All praise to Allah, most gracious, most merciful for his help, blessing and guidance, which has given me the patience to accomplish this task.

This research could not have been achieved without the help and assistance of some great people. I wish to express my special thanks to anyone who helped me in achieving this work.

In particular, I would like to thank my supervisor, Professor Rodney Wilson for his valuable supervision. I would like to extend my gratitude to the staff of the School of Government and International Affairs, the department of the Institute of Middle Eastern and Islamic Studies for the interest they have shown in my work, and for their friendliness, and to the staff at the University Library and the ITS, who have been of great assistance to me.

I gratefully acknowledge all of those who generously gave of their time and distributed the questionnaires. I also acknowledge all the 111 respondents who took the trouble to complete the questionnaires and make suggestions, which were much appreciated.

I owe special appreciation to my beloved father and brothers and sisters for their unconditional love, care and unlimited support during all the years of my study. Finally, my deepest appreciation is to my wife who provided me with unlimited support in taking care of our family during my study, and who gave me the encouragement I needed to achieve my goal and also for my daughters, Batool, Fatma and Sarah.

DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application of another degree in qualification to this or any other university or institutions of learning

Copyright

The copyright of this thesis rests with the author. No extract from it should be published without his prior written consent, and all information derived from it should be acknowledged.

Table of Content

Abstract
Acknowledgement
Declaration
Table of Content
List of Table
List of Figures

CHAPTER ONE: INTRODUCTION

1.1 Research Motivation 1
1.2 Aims and Objectives 3
1.3 Research Methodology 4
1.4 Overview of the Research 5

CHAPTER TWO: SMALL AND MEDIUM ENTERPRISES

2.1 Introduction 9
2.2 Entrepreneurship and Small and Medium Businesses 10
2.3 Definitions of Small and Medium Enterprises 12
2.3.1 Criteria for the Definition of Small and Medium Enterprises 14
2.3.1.1 Employment standard 14
2.3.1.2 Invested capital standard 15
2.3.1.3 Binary or bilateral standard (employment and capital investment standard) 16
2.3.1.4 Other criteria 17
2.3.1.4.1 Technological progress standard 17
2.3.1.4.2 Standard of size and value of production 17
2.3.1.4.3 Standard of quantity and value of raw materials 18
2.4 The Characteristics and Advantages of SMEs 18
2.4.1 The Characteristics of SMEs 19
2.4.2 The Role and Contribution of SMEs to National Economies 21
2.5 Source of Funds for SMEs 22
2.5.1 Funds provided by borrowing 23
2.5.2 Selling Part of the Equity 25
2.5.3 Leasing as a capital substitute 26
2.6 Financing Obstacles and Problems Faced by SMEs 26
2.6.1.1 Obstacles faced by commercial banks in financing SMEs industries 27
2.6.1.2 Obstacles faced by the specialised lending institutions in financing SMEs 28
2.6.2 SME financing gap 29
2.7 Conclusion 32

CHAPTER THREE: ISLAMIC FINANCE

3.1 Introduction	33
3.2 The Primary *Shariah* Principle of Muamalat (transaction)	35
3.3 Prohibited Elements on the Islamic Financial Contracts	36
3.3.1 *Riba*	37
3.3.2 *Gharar*	39
3.4 Contracts Based on Mark-up Schemes	40
3.4.1 *Murabahah* (cost-plus profit financing)	41
3.4.2 *Ijara* and *Ijara Wa-Iqtina* (simple leasing arrangement)	43
3.4.3 *Salam* (post delivery sale)	44
3.4.4 *Istisna*	45
3.4.5 *Ju'ala*	46
3.4.6 *Qard Hasan*	47
3.5 Islamic Equity Finance in Terms and Time of Contract	47
3.5.1 Types of Islamic equity financing	48
3.5.2 Background and definitions	49
3.5.3 Definition and classification of *Musharakah*	50
3.5.4 Definition and classification of *Mudharabah*	52
3.5.5 Co-operative	54
3.6 SMEs Financed Through Islamic Modes of Finance: Country Cases	55
3.7 Conclusion	61

CHAPTER FOUR: AN INTRODUCTION TO SMALL AND MEDIUM SIZED ENTERPRISES AND TO SAUDI FINANCIAL SECTOR

4.1 Introduction	62
4.2 SMEs in Saudi Arabia	63
4.2.1 The characteristics of small and medium sized businesses in Saudi Arabia	63
4.2.2 Significance of Saudi SMEs	65
4.2.3 Obstacles faced by SMEs	66
4.2.3.1 Lack of feasibility study or low quality of the feasibility studies of projects	66
4.2.3.2 The administrative and managerial imbalances	67
4.2.3.3 The absence of an independent institutional framework for SMEs	68
4.2.3.4 Databases, information and scientific research	69
4.2.4 Source of debt funding for SMEs in Saudi Arabia	70
4.2.4.1 The centennial fund (charity fund)	73
4.2.5 Restrictions on raising equity finance for SMEs in Saudi Arabia	74
4.2.5.1 Private equity	74
4.2.5.2 Equity capital: venture capital Industry	75
4.2.5.3 Government involvement	76
4.2.5.4 Cultural background	77

4.3 Saudi Financial Sector 77
4.3.1 An Introduction to Saudi financial sector 77
4.3.2 Saudi Arabia monetary agency (SAMA): The central bank 80
4.3.2.1 The functions and responsibilities of SAMA 80
4.3.2.2 The conduct of monetary policy 81
4.3.2.3 Management of reserve assets 82
4.3.3 Specialised fund 83
4.3.3.1 Industry policies and lending criteria 84
4.3.4 Commercial banks 85
4.3.5 The stock market 86
4.4 Conclusion 89

CHAPTER FIVE: RESEARCH METHODOLOGY

5.1 Introduction 91
5.2 Research methodology 92
5.3 Research design 93
5.4 Research method 94
5.4.1 Survey design 97
5.4.2 Semi-structured interview 98
5.4.3 The questionnaire 98
5.5 Population and sample 103
5.5.1 Population and sample frame 103
5.6 Level and characteristics of measurements 104
5.7 The pilot study 105
5.8 Structuring data analysis: constructing hypotheses 106
5.8.1 Section one: PLS awareness 106
5.8.2 Section two: Saudi SMEs and the financial sector 107
5.8.3 Section three: entrepreneurship and business ownership 108
5.8.4 Section four: Saudi entrepreneurs and Saudi capital providers 108
5.9 Recoded questions in constructing data analysis 110
5.10 Data analysis: techniques used to explore differences among groups 113
5.10.1 Parametric and non-parametric statistics 113
5.10.2 Types of chi-square 114
5.10.2.1 Assumptions 114
5.10.2.2 Statistical test used in the study 115
5.10.3 T-test of difference of means 116
5.10.3.1 Types of t-tests 116
5.10.3.2 Assumptions 118
5.10.4 The binomial test 119
5.10.5 Data quality and reliability 120
5.10.5.1 Cronbach's alpha test 120
5.11 Difficulties and limitations 121
5.12 Conclusion 122

CHAPTER SIX: SAUDI SMEs AND BUSINESS ENVIRONMENT DESCRIPTIVE EMPIRICAL FINDINGS

6.1 Introduction	123
6.2 Respondents' background variables	124
6.3 Entrepreneur's knowledge of Islamic finance	126
6.3.1 Islamic finance and religiosity	129
6.4 Type of business: participatory or non-participatory	131
6.5 Financial Conditions Set by Banks	133
6.6 Business Plan (Feasibility Study)	134
6.7 Nature of Business	135
6.8 Capital Providers and Form of Financial Return	136
6.9 Business Constraints	138
6.10 SMEs in Operation	141
6.11 Saudi Arabia Business Environment	146
6.12 Future of PLS	152
6.13 Conclusion	154

CHAPTER SEVEN: PERCEPTIONS ON SAUDI SME BUSINESS AND FINANCIAL ENVIRONMENT: EMPIRICAL ANALYSIS

7.1 Introduction	156
7.2 Awareness of Business	156
7.2.1 Financial awareness	161
7.2.2 Saudi business attitude	162
7.2.3 Limitation of awareness and underdevelopment of the Saudi financial system	166
7.3 Attitude toward Partnership	172
7.4 Potentiality of Islamic Banking and Financial Institutions to Finance SMEs	174
7.5 Saudi SMEs Business Environment	181
7.6 Conclusion	185

CHAPTER EIGHT: EMPIRICAL ANALYSIS OF THE ASPECTS OF SME BUSINESS AND FINANCING IN SAUDI ARABIA

8.1 Introduction	187
8.2 PLS Awareness	188
8.3 Entrepreneurship and Business Ownership/partnership	191
8.4 Saudi SMEs and Financial Sector	196
8.4.1 Entrepreneur's Reaction toward Government Effort	198

8.5 Perceptions on Saudi Entrepreneurs and Saudi Capital Providers 201
8.6 Conclusion 214

CHAPTER NINE: CONTEXTUALISING THE FINDINGS: AN INTERPRETATIVE DISCUSSION

9.1 Introduction 216
9.2 Awareness of Islamic Banking products 218
9.3 Saudi SMEs and the Financial Sector 220
9.4 Entrepreneurship and Business Ownership 225
9.5 Saudi Entrepreneurs and Saudi Capital Providers 229
9.6 Future of PLS as a Mode of Financing for SMEs 245
9.7 Conclusion 248

CHAPTER TEN: CONCLUSION

10.1 Introduction 251
10.2 Reflecting on Financing and SME Financing in Saudi Arabia 251
10.3 Reflecting on the Empirical Findings 253
10.4 Policy Recommendations 257
10.5 Suggestion and Future Study 258

Bibliography 260
Appendix 278

List of Tables

No	description	Page
3.1	Percentage of Islamic Modes of Finance	57
3.2	Targeted Group to Finance	58
3.3	Bank Islam Volume of Islamic Finance	58
4.1	Comparison of Major Economic Indicators of Large and Small Companies	65
4.2	The Use of SME For Banks' Products	72
4.3	The Specialised Credit Institutions (Credit Disbursements)	83
4.4	Annual Trends in the Saudi Stock Market	88
5.1	Reliability Statistics (Cronbach's alpha coefficient)	121
6.1	Personal Information	125
6.2	Profit and Loss Sharing Knowledge	127
6.3	Experience of Islamic Finance	129
6.4	Islamic Finance and Religiosity	130
6.5	Type of Business/ Participatory or Not and What Kind	132
6.6	Financial Conditions Set by Islamic Banks, Islamic Windows and Conventional Banks.	134
6.7	Business plan (Feasibility Study)	135
6.8	Nature of the Project	136
6.9	Principle of Borrowing	136
6.10	Source of Funds	137
6.11	Expectation from Capital Providers	138
6.12	Financial Return	138
6.13	Source of Constraint on Businesses	140
6.14	Method of Funding	142
6.15	Difficulty of Repayment	143
6.16	Project Classification	143
6.17	Project Classification	144
6.18	Interaction with Partner	144
6.19	Kind of Collateral	145
6.20	Intervention of the Financial Intermediary	145
6.21	Entrepreneurs Future Strategy	146
6.22	Saudi Arabian Business Environment	148
6.23	Expectation from Government and Saudi Banks	149
6.24	Preference for Using PLS	150
6.25	Appropriate source of Fund	151
6.26	PLS Experience	152
6.27	Expectation from Prospectors of PLS	153
6.28	Obstacles facing SME in Saudi	154
6.29	Sharing Opinion	154

List of Tables

No	description	Page
7.1	Entrepreneurial Categories * P1Q5 PLS Modes of Finance Cross tabulation	157
7.2	Entrepreneurial Categories * P1Q6 PLS Suitable Cross tabulation	158
7.3	Entrepreneurial Categories * P1Q8 PLS-Oriented financing Cross Tabulation	159
7.4	Experience * P1Q8 PLS-Oriented Financing Cross Tabulation	160
7.5	Experience * P7Q57 Contented with PLS Cross Tabulation	161
7.6	Entrepreneurial Categories * P1Q7 Kind of Finance Cross Tabulation	162
7.7	Experience * P4Q21 Feasibility Study Cross Tabulation	163
7.8	Experience * P4Q22 Auditing a Business Plan Cross Tabulation	164
7.9	Experience * P4Q24 Business Risk Cross Tabulation	165
7.10	Entrepreneurial Categories * P4Q25 Nature of Projects Cross Tabulation	166
7.11	Entrepreneurial Categories * P4Q30 Financial Return Cross Tabulation	167
7.12	Entrepreneurial Categories * P5Q32 Initial Fund Cross Tabulation	168
7.13	Experience * P5Q34 Ongoing Operational Fund Cross Tabulation	169
7.14	Entrepreneurial Categories * P5Q44 Future Investment Fund Cross Tabulation	171
7.15	Entrepreneurial Categories * P6Q48 Saudi Funding Project Cross Tabulation	172
7.16	Experience * P3Q16 ownership structure Cross Tabulation	173
7.17	Entrepreneurial Categories * P3Q17 Percentage Owned by A partner Cross Tabulation	174
7.18	Experience * P2Q9 Attraction Dealing with IF Cross Tabulation	175
7.19	Entrepreneurial Categories * P2Q11 Principle of Borrowing Cross Tabulation	176
7.20	Experience * Islamic Bank Cross Tabulation	177
7.21	Experience * Conventional Bank Cross Tabulation	178
7.22	Experience * Capital market Cross Tabulation	179
7.23	Experience * Friends or Family Cross Tabulation	180
7.24	Entrepreneurial Categories * P6Q56 Financing SME through PLS Cross Tabulation	181
7.25	Experience * P6Q45 Government Intervention Cross Tabulation	182
7.26	Entrepreneurial Categories * P6Q46 Saudi Financial Sector Cross Tabulation	183
7.27	Entrepreneurial Categories * P6Q47 Saudi Capital Market Cross Tabulation	184
7.28	Experience * P5Q43 Future Strategy Cross Tabulation	185
8.1	Level of Knowledge All Entrepreneurs	188
8.2	Level of knowledge Type of Entrepreneurs, Plan to Start and Operating	189
8.3	Level of Knowledge Entrepreneur, Planning to Start A business	189
8.4	Level of knowledge Entrepreneur Operating A business	190
8.5	Level of Knowledge Type of SMEs: Small and Medium	190
8.6	Ownership structure All Entrepreneurs	191

List of Tables

No	description	Page
8.7	Ownership structure Type of Entrepreneur: Plan to Start and Operating A business	192
8.8	Ownership Structure Type of SMEs: Small and Medium	192
8.9	The Correlation between Percentage of Ownership and Expected Work by Partner, All Entrepreneurs	193
8.10	The Correlation between Percentage of Ownership and Expected Work by Partner Type of Entrepreneur: Planning to Start a business	194
8.11	The Correlation between Percentage of Ownership and Expected Work by Partner Type of Entrepreneur: Operating A business	194
8.12	The Correlation between Percentage of Ownership and Expected Work by Partner Type of Enterprise: Small	195
8.13	The Correlation between Percentage of Ownership and Expected Work by Partner Type of Enterprise: Medium	195
8.14	Capability of the Saudi Financial Sector to Absorb More of SME All Entrepreneurs	196
8.15	Capability of the Saudi Financial Sector to Absorb More of SME Type of Entrepreneur: Plan to Start and Operating A business	197
8.16	Capability of the Saudi Financial Sector to Absorb More of SME Type of SMEs: Small and Medium	198
8.17	Government as a major Constraint All Entrepreneurs	198
8.18	Government Regulation as The Major Constraint Type of Entrepreneur: Plan to Start and Operating	199
8.19	Government Regulation as The Major Constrain Type of SME: Small and Medium	200
8.20	Government Regulation as The Major Constrain Type of SME: Small	200
8.21	Government Regulation as The Major Constrain Type of SME: Medium	201
8.22	Knowing Appropriate Finance All Entrepreneurs	202
8.23	Knowing Appropriate Finance Type of Entrepreneur: Plan to Start and Operating	202
8.24	Knowing appropriate finance Type of Entrepreneur: Plan to Start a business	203
8.25	Knowing Appropriate Finance Type of Entrepreneur, Operating A business	203
8.26	Knowing Appropriate Finance Type of SME: Small and Medium	204
8.27	PLS More Suitable for SME All Entrepreneurs	205
8.28	PLS More Suitable for SME Type of Entrepreneur, Plan to Start and Operating	205

List of Tables

No	description	Page
8.29	PLS More Suitable for SME Type of Entrepreneur: Plan to Start	205
8.30	PLS More Suitable for SME Type of Entrepreneur: Operating	206
8.31	PLS more suitable for SME Type of SME, Small and Medium	206
8.32	Difficulty of Conditions set by Islamic Banks All Entrepreneurs	207
8.33	Difficulty of Conditions set by Conventional Banks All Entrepreneurs	207
8.34	Difficulty of Conditions set by Islamic Banks Type of Entrepreneur, Plan to Start & Operating	208
8.35	Difficulty of Conditions set by Islamic Banks Type of Entrepreneur, Plan to Start & Operating	208
8.36	Difficulty of Conditions Set by Islamic Banks Type of SME: Small and Medium	209
8.37	Difficulty of Conditions set by Conventional Banks Type of SME, Small & Medium	209
8.38	Bank Assessment on SME All Entrepreneurs	210
8.39	Bank Assessment on SME Type of Entrepreneur: Plan to Start and Operating	210
8.40	Bank Assessment on SME Type of SME: Small and Medium	211
8.41	Financial Institution for Financing SMEs Using PLS All Entrepreneurs	211
8.42	Financial Institution for Financing SMEs Using PLS Type of Entrepreneur: Plan to Start and Operating	212
8.43	Financial Institution for Financing SMEs Using PLS Type of SME, Small & Medium	212
8.44	Venture Capital Company as Financer of SME All Entrepreneurs	213
8.45	Venture Capital Company as Financer of SME Type of Entrepreneur: Plan to Start and Operating	213
8.46	Venture Capital Company as Financer of SME Type of SME: Small and Medium	214
9.1	Motivation to Deal with Islamic Finance	219
9.2	Source of Constraint on Businesses, (Government Regulation)	224
9.3	Financial Knowledge	231
9.4	PLS Experience	245
9.5	Expectation from Prospectors of PLS	246
9.6	Expectation from Prospectors of PLS	247
9.7	Summary of The Findings	249

List of Figures

No	description	Page
2.1	Organising Business Activity	12
2.2	SMEs' Source of Funding	23
4.1	Classification of Saudi SME by Capital and Employees (Council of Saudi Chambers of Commerce and Industry)	64
4.2	Saudi Arabian Monetary Agency (Saudi Central Bank)	82
5.1	Sample Distribution of Small and Medium Enterprises	99
9.1	Capability of Saudi Financial Sector	222
9.2	Acceptable Percentage of Ownership	228
9.3	Islamic Finance and Religiosity	235
9.4	Financial Conditions set by Islamic Banks, Islamic Windows and Conventional Banks	239
9.5	Saudi Banks Financing SMEs	241
9.6	Financing SMEs Through PLS	243

CHAPTER ONE

INTRODUCTION

1.1 RESEARCH MOTIVATION

Developing countries are faced with the economic and social realities of developing their economies through sustainable growth, while creating job opportunities for their growing population. An important aspect of economic development policy has been the agenda of expanding the enterprise cultures and bases, namely small and medium enterprise (SME). However, establishing and operating SMEs successfully requires considerable capital investment. Conventionally, a combination of private savings and borrowings from commercial financial institutions would make up this capital. Financial institutions usually offer a number of interest-based loans to willing borrowers.

The Kingdom of Saudi Arabia is not an exception to this trend in the world economy. Privatisation, as a strategic policy measure towards sustainable development of the country's economic state, is increasingly becoming an inevitable topical imperative. The government has implemented a new commercial law that has increased the demand for investing in SMEs, particularly by young Saudis who constitute the highest proportion of the Saudi population. Hence, the financial system of Saudi Arabia is under great pressure to fulfil the financing needs of SMEs, at large. Due to the financial culture in the country it has so far been difficult to obtain external funding for SME. Hence, most of the SME in the country have been dependent on investors' personal savings (Al-hajjar, 1989).

Understanding the significance of SMEs and their role in economic development and job creation and demands of Saudi entrepreneurs for SME financing, the government undertook several measures to fulfil these demands. For example, a series of conferences was held throughout Saudi Arabia to initiate academic and policy discussion and activate funding for SMEs. Such a conference was held at Dammam on 20th January 2004, following which the government assured young Saudis of

persistent support by the government and private sector. Moreover, Saudi Basic Industries Conference (SABIC) has listed 147 products that may be used as potential business opportunities for SMEs to engage in. Similarly, the government, through the Human Resource Development Fund, has expressed its keen interest in providing loans and financial assistance to those specialised trading organisations that would train young Saudis on specific SMEs. Hence, it appears that a generally powerful effort is already on its way towards establishment and smooth running of SMEs.

Being an Islamic country and a religiously conscious nation, the fundamental problem is the underlying contract that a borrower will have to sign with the financial institution. As is well known, a conventional interest-based loan is strictly prohibited by Islam. Fortunately, a number of specialised Islamic Financial Institutions (IFIs) have already started offering alternative financial contracts like *murabaha*, *istisna*, and *salam*. Despite their profitable use in practice through IFIs, it is largely agreed that even these types of modes of financing may not necessarily ideal for SME financing. A vast majority of theoretical literature prefers to argue in favour of using Profit and Loss Sharing (PLS) or venture capital oriented financing modes.

The commonly known PLS modes of financing are *mudharabah* and *musharakah*. According to (Encyclopaedia of Islamic banking 1995), *mudharabah* is a contract between two parties where one subscribes capital in the form of money and the other contributes only its business skills and services. *Musharakah,* on the other hand, is the participation of two or more parties in a certain business venture with defined amounts of capital according to a contract for jointly carrying out a business and for sharing profit and loss in specified proportions (Siddiqi 1987).

In the light of this background discussion, it becomes clear that Saudi Arabia needs to continue promoting business growth through SMEs. Further, the financial system should ideally be fulfilling financing needs of SMEs through Islamic modes of financing, particularly using PLS modes, as the population prefers Islamic banking and financing over conventional methods.

1.2 AIMS AND OBJECTIVES

Based on the brief discussion in the previous section, this study aims to explore the possibility of using Islamic financing instruments of PLS for the financing needs of existing SMEs and the founding capital needs of new SMEs, in the case of Saudi Arabia.

In fulfilling its aim, the research is developed within the following framework of objectives:

- To explore the demand for PLS oriented Islamic financial modes for SME financing by the entrepreneurs through the perceptions and opinions of Saudi entrepreneurs;
- To explore the business and financial culture regarding SME financing in Saudi Arabia through the perceptions and opinions of entrepreneurs currently working and potential entrants;
- To explore the perceptions of entrepreneurs with regard to joint ventures;
- To identify the perceptions of entrepreneurs regarding SME financing policies of the government;
- To explore if the financial institutions and Saudi entrepreneurs understand the significance of using PLS as a mode of financing SME;
- To find out whether banks are the right capital providers for entrepreneurs and suggest a practicable PLS-based mode of financing to the two parties.

In addition to the above objectives, the following issues are important and will be investigated within this study:

The impact of Islamic literature on entrepreneurs' financial analysis is very powerful. However, it is important to discover whether the knowledge base of Islamic financial instruments (especially PLS) of entrepreneurs is sufficiently compatible to allow them to develop projects, by means of Islamic finance.

Furthermore, this study aims to respond to the following questions. Is the Saudi Arabian financial environment capable of integrating more SMEs and guiding them to

a long, successful existence, and do Saudi entrepreneurs perceive the government as a major constraint on business? Due to the slow development of the country's financial systems, Saudi entrepreneurs do not recognise the appropriate finance type for their businesses and do not perceive the PLS as being a more suitable financing method for SMEs.

This study also aims to ascertain whether the majority of Saudi entrepreneurs have a business partner. Since this is the case, the further question arises as to the acceptable percentage of business shares, allocated by way of venture capital, to the prospective partner when considered against the expected work to be handled by that partner.

Lastly, an attempt was made to explore the business and financial cultures of Saudi entrepreneurs. In other words, this discussion focuses on what Saudi entrepreneurs think of credit application conditions set by Islamic and conventional banks. This assists in the discussion of the attitudes of Saudi banks towards SMEs, with the objective of finding if Saudi banks are reaching out to Saudi entrepreneurs to overcome the gap exist between supply and demand with regard to credit. Finally, this research explores the contingency that if Saudi banks are not the appropriate capital provider for SME financing, what are the views of the Saudi entrepreneurs as regards to available alternatives.

1.3 RESEARCH METHODOLOGY

This is a qualitative study based on quantitative method of primary data, collected from the field of small and medium sized enterprises in the Kingdom of Saudi Arabia and analysed through two types of research techniques, aimed at achieving the aim of the study. Semi-structure interview methods targeted Saudi commercial banks in an attempt to assess the efforts made by the banks in the last five years, by asking about financing methods for SME. However, the banks refused to answer the questions and only three banks agreed to complete the survey and their answers were not found to be so significant as to contribute to the results. Therefore the researcher decided to exclude the semi-structure interviews from the study and only rely on the questionnaire method.

The questionnaire undertaken for the field-work consists of 63 questions, excluding personal information. Generally most of the questions were in the form of multiple-choice queries, in order to ease the process of answering, coding, evaluation and further analysis. Five hundred questionnaires were distributed in Jeddah, but only 130 were returned. A shortage of time and carelessness of the respondents caused the sample to be quite small. Of these, nineteen were excluded as they were biased responses. Therefore, the actual sample size of the survey is 111 respondents included in two categories: entrepreneurs planning to start a business and existing entrepreneurs. Within these two categories, there are also two kinds of businesses: small and medium.

To attain the aims and objectives of the study the researcher used three type of empirical analysis: descriptive analysis, cross tabulation analysis and inferential statistical test in the form of chi-square test, binomial test and various types of t-test.

1.4 OVERVIEW OF THE RESEARCH

In responding to the research aim and objectives in conducting the research, a rigorous research plan is set out. A brief description of each chapter as a result of the research process is presented in the following section.

Chapter One introduces the research subject with a detailed discussion on the motivation for the study.

Chapter Two is a literature review which focuses on the importance of small and medium sized enterprises (SMEs) worldwide. Giving an overview of the SMEs by illustrating some definitions based on the criteria used for the definitions and one which the researcher has considered in this work, and the obstacles challenging SMEs. Financing SMEs and the gap which has occurred between entrepreneurs and capital providers is an important focus point of this chapter, which considers the financial aspect in detail. This chapter benefits from the width of this literature review. On the other hand, entrepreneurs admit that despite the efforts being made

by capital providers, obstacles still exist for SMEs, mainly related to funding. The methods entrepreneurs used to rely on to finance their businesses indicate a preference for traditional financing methods, with a preference for relying on their own savings and those of families or relatives. However, these sources are drying up in the present difficult economic conditions. Indeed, the status of families has changed and their savings have become insufficient even for daily expenses. In addition, the method of finance offered by Saudi banks does not satisfy the conditions required by the entrepreneurs as they believe that most of the Saudi banking operations are not compatible with *Shariah* law. Entrepreneurs would like to have funding from capital providers that suit them most and fulfil their observance of *Shariah*.

The focus of *Chapter Three* is on the theoretical details of Islamic modes of financing with special reference to profit-and-loss sharing (PLS) modes of financing including its associated strengths and weaknesses. The study will benefit at this point from available secondary information. Although not very common, PLS is being used by certain financial institutions in practice. This section of the chapter would investigate the intensity of its use, particularly in the context of SMEs.

Chapter Four presents the development of the SMEs sector in the Kingdom of Saudi Arabia, namely through Saudi specialised credit and Saudi commercial banks, which have responded positively towards the demand for developing the SMEs sector and participate in variety of ventures to share the fruit of SMEs. Some Saudi banks established a new financial department specialised in financing SMEs domestically. Also, the section on financial system of Saudi Arabia outlines both the conventional and Islamic financial set-ups in Saudi Arabia. Therefore, the second section of this chapter pertains to the structure of the Saudi financial sector. Again, the study benefits here from the presence of secondary information.

Chapter Five is the research methodology chapter. An original contribution is sought in this chapter by the way of conducting a survey of financial institutions and entrepreneurs through assembling primary information on the preferences, attitudes and understanding of entrepreneurs regarding different modes of financing, with a particular focus on PLS. The discussion in Chapter Five is organised in seven sections. The first section sets out an introduction to the chapter and the second

section presents the research hypotheses. This is followed by section three, which provides details of the research methods and design. Section four describes the population and sample design, while section five discusses the research level of measurements and the techniques used to explore differences amongst groups as well as the statistical tools employed in arriving at the results. Section six outlines the type of survey design used in the study, namely semi-structured interviews and questionnaires. The final section presents the conclusions of the chapter.

Chapter Six is the first empirical chapter and is mainly based on descriptive analysis. The questionnaire in the descriptive chapter is divided into seven parts. The first part consisted of questions relating to personal information: age, nationality, level of education, entrepreneurial categories and business experience. The second section covered PLS knowledge and understanding of its terminology. The third section related to Islamic finance and religiosity, including the influence of Islam on business behaviour. The fourth section included different hypothetical questions relevant to each category of the sample type of business *i.e.* participatory or non-participatory, and the nature of business. The fifth section was only for Saudi SMEs already in existence. Section six addressed the Saudi Arabian business environment, including entrepreneurs' awareness of government policies. Revealing the opinions of the entrepreneurs on the future of PLS is the content of the section seven.

Chapter Seven, as the second empirical chapter, provides detailed empirical findings through the use of cross-tabulation method. This chapter considers four sections. The first part discusses entrepreneurs' awareness of the Islamic concept of profit and loss sharing (PLS), the financial awareness of entrepreneurs in the pre-stage of their business, the modes of financing and lastly in this part entrepreneurs awareness to the Saudi Arabian government funding of SMEs. The second section examines entrepreneur's attitudes toward partnership. The third section looks at the potential of Islamic banking and Islamic financial institutions in the Kingdom of Saudi Arabia, and the fourth section considers the environment of Saudi Arabian SMEs. Selective questions have been chosen to be cross-tabulated with entrepreneurial categories and experience in order to investigate the above-mentioned considerations, addressed in the four parts of this chapter.

Chapter Eight, the third empirical chapter, focuses on inferential statistical analysis in responding to the research aims and objectives. This chapter tests eleven main hypotheses for all entrepreneurs and sub-hypotheses to test the variance differences between the types of entrepreneurs and types of business. These hypotheses cover four parts, *i.e.* PLS awareness, Saudi SMEs and the financial sector, entrepreneurship and business ownership, and Saudi Entrepreneurs and Saudi capital providers. An inferential statistical analysis of the research variables is attempted in this chapter using various tests such as cross-tabulation, binomial test, t-test, and q-square.

Chapter Nine provides an overall discussion of the findings made throughout the study and suggests a practical PLS mode of financing for SMEs in Saudi Arabia. This analysis stems from considering the respective needs of the parties involved and the macroeconomic objectives of the country.

Chapter Ten concludes the research and presents policy recommendations and highlights the need for further research.

CHAPTER TWO

SMALL AND MEDIUM ENTERPRISES

2.1 INTRODUCTION

At the end of an era characterised by planned economies and huge state-owned enterprises within most developed nations, small and medium enterprises (SMEs) constituted a significant portion of EU-domiciled firms and employed more than two thirds of the private sector's employees. According to Gray (2006, p. 5) "Some 99 per cent of all EU firms are SMEs and, before the recent accession of ten new Member States, they accounted for 70 per cent of Europe's 122 million jobs. They also accounted for 57 per cent of Europe's €25 trillion sales". There is no doubt that the tremendous technological advances and market liberalisation through globalisation has led to the creation of new challenges for these projects, especially in the context of developing countries. The world economy has witnessed the emergence of new generations of small enterprises, which have been able to benefit from the advantages of the new environment, which allows them access to knowledge, capital and large markets simultaneously. This new era, calling for this type of small enterprise, is based on innovation and technology; differing substantially from those creative and non-traditional industrial nations.

It is important to note that the majority of developing countries have been constructing plans which emphasise the support for and creation of SMEs. There are various reasons for this move, such as mitigation of poverty, decreasing unemployment and ensuring the just distribution of resources and income (El-Gamal *et al.* 2000). From this point on, in a very competitive environment, these novel systems strive to develop and modernise the concept of sponsoring and supporting SMEs. SMEs incubators have been at the centre of most of the systems invented in the past 20 years, leading to the effectiveness and success of accelerating the implementation of programmes of economic and technological development as well as creating new jobs--used in many countries. This chapter, hence, attempts to provide a critical overview of the literature related to SMEs by presenting some definitions

based on various criteria, and also considering the obstacles faced by SMEs. SME finance and the existence of a financial gap between capital providers and entrepreneurs are the cornerstone issues addressed in this chapter, which considers the financial implications in detail.

2.2 ENTREPRENEURSHIP AND SMALL AND MEDIUM BUSINESSES

Entrepreneurship has been utilised by writers in different cases and perspectives. The minor dispute of relevance is whether people who have founded and developed major companies can be considered entrepreneurs? Some writers see the entrepreneur as the establisher and owner of a new small business or the owner-manager of the business. Others believe entrepreneurships refer to the manner of seeking opportunities and innovative behaviour (Glancey and McQuaid 2000). Also, the term can refer to the transformation of ideas and dreams into reality.

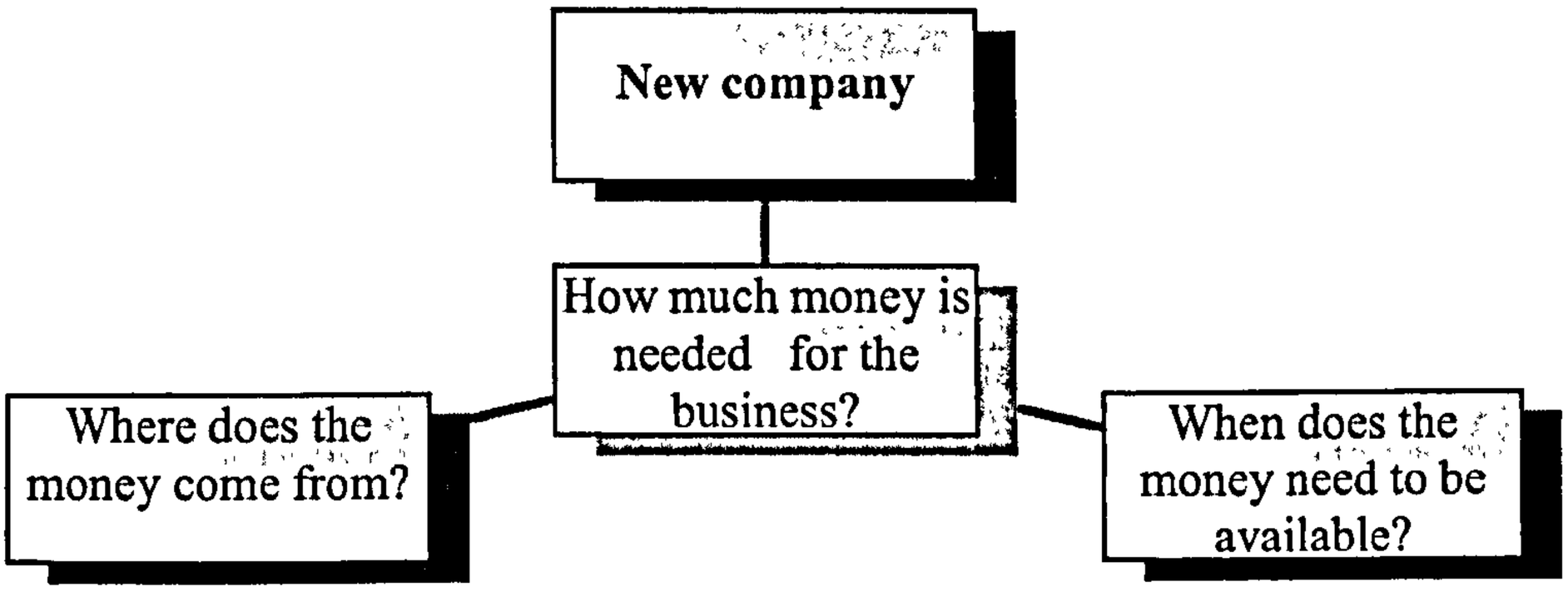
Broadly speaking, an entrepreneur is an individual who is willing to face future uncertainty and take the risks of investing money and time in such a business—which has both the potential to profit and to incur losses. In other words, entrepreneur is someone who purchased at a certain price but sold at uncertain prices--hence the ability to take and deal with risk. Entrepreneurship, therefore, is an act of managing an enterprise that involves the potentiality to burden loss or gain profit (Moorman and Halloran 1993). The person who sells ice-cream on the street and another person who owns and manages a large company are both entrepreneurs. The act of managing both businesses, whether small or large, and the individual action done by both persons equate to entrepreneurship. The barriers of age, education and other hurdles do not exist in this field. Therefore, entrepreneurs come from all levels of society, with different backgrounds and attitudes. They participate in all level of business activities.

There are some broad perspectives that are considered as being dimensions of entrepreneurship. Firstly, the entrepreneur as a risk-taker is someone who transacts with an existing product in an existing market, buying at a certain price and selling at uncertain prices, thus assuming the role of risk taker. Therefore, risk-takers should by default be burdened with the responsibilities for both good and bad outcomes and

should be able to manage uncertainty involved in the business (Day *et al.* 2001). The importance of an entrepreneur in the economy is to identify risky opportunities and transform them into reality. This would improve the efficiency of the economy and raise the level of competition in the market. Secondly, entrepreneurs are considered to be resource allocators are organisers of factors of production. Jean-Baptist in 1821 mentioned that entrepreneurs shifted the resources around them from lower productivities to higher ones, by means of making a judgment as to the best use of labour, skills and capital (Glancey and McQuaid 2000). Thirdly, entrepreneurs are considered to be innovators: some writers such as Schumpeter in his seminal work in 1934 (re-print 1993), saw entrepreneurs as individuals who see things differently and have the potential to alter them. These persons must be up-to-date with the environment and the professional field around them. He or she can use a combination of means of production. This would be done by setting targets to achieve and adding new aims to the economy.

Nevertheless, it is very difficult to succeed as a small business owner in the prevailing competitive market, as every 24 out of 100 business starting off today in the United State of America are going to close in the first two years and 27 will be closed within four years. Additionally, more than 60 businesses out of 100 will close within six years (Moorman and Halloran, 1993). Those who succeed in business are most likely to do so because they have very good business plans and have the necessary personal characteristics for successful entrepreneurs, such as the confidence to make a decision, having determination and perseverance, having a creative mind and a significant desire to succeed. Thus, what should entrepreneurs bear in mind when they would like to start their business? Three things are crucial for a business. Firstly how much money is needed for the business? Entrepreneurs should be clear and precise about the money he/she is going to borrow. Secondly, where does the money come from? In other words, which source of money would cost entrepreneurs less than other sources, as opportunity costs have to be considered? Thirdly, when does the money need to be available? In this case, the timely availability of the money would reduce the cost of the projects, as figure 2.1 explains.

Chart 2.1 Organising Business Activity



2.3 DEFINITION OF SMALL AND MEDIUM ENTERPRISES

Certainly, there cannot be a specific definition and standard of small and medium-sized businesses as the terms 'small' and 'medium' are relative concepts which differ from one country to another and from one sector to another, even within the same State. One study of by Institute of the State of Georgia indicated that there are more than 55 definitions of micro business and 75 definitions of small and medium businesses. The World Bank, for example, defines small and medium enterprises as businesses employing a certain number of workers, i.e. less than 50 workers. There are many countries in the world using this standard for the definition of small and medium enterprises. However, in the United States of America, France and Italy small and medium business are so defined, if they employ up to 500 workers, in Sweden if they employ up to 200 workers, in Canada and Australia up to 99, while in Denmark SMEs are those businesses that employ up to 50 workers (Almahrowg and Mokabalah, 2006).

The terms micro-projects/small projects, often bring to mind small-scale industries spanning different sectors, whether industrial, commercial, agricultural or service. There are several criteria which can define such projects, such as the size of capital, the number of workers employed, the sales volume, turnover and forms of project ownership. For example, applying the 'number of workers' criteria defines any project which employs up to four workers as a micro project. In contrast, a project which employs 5 to 10 workers is generally defined as a small project, while a project

accommodating from 11 to 49 workers is considered a medium project, and a project employing 50 or more, is as a large project (Working paper 2003). It should, however, be noted that each sector has its own characteristics that leads to specific definitions depending on the sector.

According to Al-Ghamri (1998), a business is defined as a small enterprise when it is owned and operated through individual decision-making processes. However, the administrative director and owner is often the founder of this project and such a business normally would have a small share of the market. Also the number of workers should not exceed 20 and the capital should not exceed SAR10.000.000. This definition would not be applicable in developed countries like the USA and Japan, where having 100 employees is considered a match to the 'small business' category. Some small or medium sized firms in developed countries are regarded as large firms in developing countries.

According to Stokes (1992) if the firm satisfied three criteria it would be regarded as small: (i) it has a relatively small share in their market place; (2) it is managed by owners or part-owners in a personalised way and not through the medium of a formalised management structure, and (iii) it was independent in the sense of not forming part of a larger enterprise.

The Gulf Organisation for Industrial Consulting (GOIC 2008) introduces a definition of small and medium-sized businesses by standards of labour and capital in the GCC countries. That definition classifies projects employing up to 30 workers as a small business, with the capital being less than $2 million dollars. Companies with no more than 60 workers on a capital between US$2-6 million are defined as medium projects (which have the largest potential in terms of employment and capital). Lastly, large projects are defined as those employing more than 60 workers with a capital above US$6 million.

It should be noted that the definition the researcher uses in this study is based on the definition provided by Council for Saudi Chambers of Commerce and Industry, which is presented in the Saudi SMEs chapter.

When small and medium-size businesses are considered, it is necessary to determine which factors/criteria to use. The definition of SME differs by countries and regions. Significant technological developments adds more characteristics to the term 'SME' such as the level of technological items used by the company, but the most common classification is based on the value of assets invested and/or the number of employees in the firm. According to Hallberg (1999, p. 1) "The lower limit for 'small-scale' enterprises is usually set at 5 to 10 workers, and the upper limit at 50 to 100 workers. The upper limit for 'medium-scale' enterprises is usually set between 100 and 250 employees". The number of employees in a company might vary from country to another. For instance, 40 employees in a firm in the Kingdom of Saudi Arabia would be considered a medium-size business, but in the UK or the USA this number would as amount to a classification of a small business. The variation here is due to the countries' sizes of economy.

2.3.1 Criteria for the Definition of Small and Medium Enterprises

Identification of the SME involves considerable debate in economic literature, which sometimes causes a conflict between interested researchers and those actually involved in the SME sector, as the concept and definitions differ from one country to another. Hence, what is a medium or even a large enterprise in one country may be a small or a micro firm in another. Therefore, economists have tried to define small enterprises through a number of different criteria, which are discussed in the following sections.

2.3.1.1 Employment standard

According to this quantitative criterion, the absolute number of workers in each company forms the basis of the comparison between enterprises; so the company employing a large number of workers is considered a large enterprise. Companies with relatively few workers are considered small enterprise. The standard measure is the most common criterion, given the ease of quantifying the staff especially at the international level. By this standard, accurate comparison between businesses that produce similar types of goods or services at the same level of technical production,

as well as easier access to data on the number of workers in various enterprises can be obtained (NLG 2004).

There are several disadvantages to applying this most important criterion. It does not take into account the fact that employment is not the only element in the process of production or service, as there are many other variables that must be taken into account. Definitions based on the criterion of employment exclusively do not reflect the real enterprise size because of differing variables (capital/work) between the various businesses; there may be large enterprises with a huge capital but only a limited number of workers. Therefore relying on the criterion of the number of workers alone is not the best means of classifying enterprises.

2.3.1.2 Invested capital standard

The basis of the introduction of this standard is that small enterprises are characterised by the low volume of capital invested; this is based on the comparison between different facilities depending on the capital value of each installation. The standard distinction is between the two types of capital. Firstly, fixed capital (land, buildings, machinery) which reflects the stability of the business; hence this standard may exclude land and buildings in this case because land and buildings are usually rented by small enterprises. Secondly, working or operating capital (all of the operating production elements that funded by the variable assets of the raw materials, wages and working etc.) represents the suppliers of the project, which is funded by the traded assets (Alasrag, 2006).

Economists use this criterion to distinguish small from other businesses, in two ways. In other words, there are economists who rely on operating capital and exclude the value of fixed assets because of their different values from time to time, so as not to give misleading results when classifying enterprises. Adding fixed capital leads to the exclusion of certain establishment from the small enterprises sector.

However, there are others, who exclude the operating capital and limit the criteria to fixed capital only. Therefore, there are some establishments that maximise the value of the working capital and minimise that of fixed capital, thus adding working capital

to fixed capital and causing these establishments to be excluded from the small enterprises classification. For that reason, the use of fixed capital as a factor alone is preferable.

In spite of the significance of this criterion, it does efficiently operate as the sole criterion for comparison and does not function in a comparison between similar enterprises in different countries, as the value of money differs from one country to another and thus may not provide a clear comparison between similar firms or industries internationally. According to Bank Negara Malaysia (2005) "Different agencies define SMEs based on their own criteria, usually benchmarking against annual sales turnover, number of full-time employees or shareholders' funds". Eventually, much of the economic literature preferred the use of standard or double standard to estimate what constitutes a small enterprise and judge whether businesses are large or small.

2.3.1.3 Binary or bilateral standard (employment and capital investment standard)

This criterion (bilateral or double standard) is one of the most important criteria used by many countries in determining the concept of small enterprises, due to the importance of combining labour and capital standards as components. This evaluation allows the determination of the highest limits of variables (working and capital) for the establishment and the appropriate level of planning. This standard involves a reciprocal relationship between the number of employees and the amount of capital invested, in two ways. First, intensive labour standard (a high employment rate/capital) uses this standard in countries that do not suffer from unemployment because of an abundance of positions. Second, intensive capital standard is a high rate of capital/work, which is used by countries that have an abundance of capital (Bank Negara Malaysia 2005).

This is one of the most common criteria used to measure the size of small enterprises, although it has some weaknesses. For example, in India, the traditional definition of small businesses is based on a combination of a maximum of employment and a certain amount of capital investments. This led to the reluctance of small enterprises

to employ those persons they need for their activities, due to the fear of exceeding the small '50 employee' category thus depriving these institutions of government programmes to help small enterprises, such as loans and technical assistance. This has the further drawback to failing to assist in the alleviation of unemployment in India. Consequently, the Government of India has limited the definition to capital standard alone and considers a plant to be 'small capital' if it does not exceed 750 thousand rupees (US$15,000 dollars) without maximising the number of workers (MSME Report, 2006). This amendment hopes to encourage enterprises to employ a greater number of workers without a similar increase in capital investment.

2.3.1.4 Other criteria

2.3.1.4.1 Technological progress standard

The development of large enterprises that make use of highly advanced technology and retail operations spread the various stages of production to separate small-sized enterprises supplying large industries. Such enterprises are clearly apparent in the United States of America and Japan, for example, their auto industries and children's toys production in Japan. This criterion may help to distinguish between types of small enterprises, for example environmental or professional establishments which do not require advanced technology and are primarily interested in fulfilling the needs of customers directly.

2.3.1.4.2 Standard of size and value of production

According to this criterion, the definition of small businesses is based on small-sized production in terms of quantity and value. The disadvantage of this standard production volume manifests itself in relation to companies that produce several different products or services. This standard is effective in businesses where the nature of the product or service industry is standard, for instance producing one type of food or cement. This is not compatible with the textiles industry for example, where there are multiple forms of the product, and this method's use can result in the inaccurate efficiency assessments of different businesses or in the absence of established to exploit the full capacity. The standard value of production has the

disadvantage of introducing a price factor, which is misleading when there is a significant change in prices, as in the case of gold workshops etc.

2.3.1.4.3 Standard of quantity and value of raw materials

According to this criterion, small enterprises are those with low volumes and values of raw materials used, while enterprises that use large quantities of raw materials and those of high-value are considered to be large enterprises. Examples of such criteria are: value-added, the number of machines, the volume of sales, production and style of links to manual and mechanical efficiency, the level of regulation, the level of quality of services provided by the State, etc. However, these standards are inaccurate, and difficult to measure, and do not accurately reflect the size of the facilities (Taucean *et al,* 2008).

2.4 THE CHARACTERISTICS AND ADVANTAGES OF SMEs

Broadly speaking, the recognition of the significance of small and medium businesses is not new; it dates back to the late 1970s. Since then, the developed countries have paid more attention to these enterprises. The sector has grown noticeably and is important for creating jobs and comprehensive economic growth. The small businesses of the UK economy, for instance, are regarded as the backbone of the economy and the Government allocates substantial resources for providing it with support services, as it is seen as a fundamental element of creating jobs and business ideas. Radical innovations since World War II stemmed from newly created small firms (Bygrave and Timmons, 1992). In the USA in 1979, the change from an industrial manufacturing economy composed of large companies to an entrepreneurial economy presented a variety of huge consequence and was the starting point for most of the business innovations of recent times. Small businesses generally have been more effective contributors and enhance innovation and productivity (Wetzel, 1982; Almus and Nerlinger, 1999)

2.4.1 The Characteristics of SMEs

The SME industries carry out a significant role in building the national economy, and show their relevance and importance by exploiting the capabilities, development, expertise and skills. They are one of the most important tributaries of the development process (Harvie and Lee, 2001; Lerner, 2002). The findings relating to the development and expansion of those projects has attracted particular attention by those interested in the issues of economic and social development. Despite the discrepancy in the order of priority enjoyed by small and medium sized industries, they account for certain characteristics that distinguish them from other industries, which are as follows:

(i) Traditionally, the owner is the main figure in the entire enterprise: the owner of the business is the manager, in charge of the administrative and daily operations. Therefore, there is an absence of management structure as the business is being run by one person responsible administratively, financially and technically. According to René and Yvon (2004) the extent of the owner-manager's involvement is directly relevant to contact with daily operations.

(ii) Restrictions on size of capital: SMEs are faced with high restrictions on the funds required for the establishment of a project, followed by the low volume of savings to investors in SME. An important issue therefore, is the appropriateness of ownership patterns in terms of capital and its relevance to the owners of these projects, as the capital over the low turnout of interlopers from the low savings of such projects, given the low cost compared with larger projects, remains an important financial difficulty.

(iii) Low capabilities for development and expansion due to a low regard for the importance and necessity of research and development. Most of the SMEs maintain their level of existence and focus on survival. According to Curran (1999) most small companies concentrate on survival and independence rather than growth. No motivation for development research exists, so one would have thought that spending money on the research to expand is a luxury, while the firm needs this money to fulfil existing commitments.

(iv) One of the features which distinguish SMEs from other sectors is their flexibility and ability to proliferate. Because of its ability to acclimatise to different circumstances, SMEs can achieve balance in the development process. After the initial foundational period of the project, it is important to increase the amount of savings, with mobilisation of private capital being a good source of the needed funds (Baldwin 1995).

(v) SMEs face difficulty in marketing and distribution, given the high cost of these marketing operations, and the enterprise's inability to bear such costs. If SMEs add the cost of marketing or distribution to the total cost, that would prevent them from offering competitive prices for their products. It is clear that there is no marketing distribution sense with SMEs, so the clients have to find them to fulfil their needs or desires. However, even large companies would find marketing costly if they did not know how to market their products. Using some marketing techniques would help all sizes of companies to benefit from the fruit of marketing; hence marketing techniques are key. Kuratko and Hodhetts (2007) argue that smaller companies can also use very reasonably priced marketing techniques.

(vi) The job generation process. The cost of job creation is low compared with large industries. In most developing countries, small firms employ a large share of the labour force, due to the large number of SME in these countries and the criteria of job qualifications. So SMEs have been known as one of the job generator variables. According to Landström (2005, p.49) "The conclusion was that it was not the large firms that created new jobs, but the small and young firms in the economy".

It is worth mentioning that the foregoing characteristics of SMEs include positive and negative aspects. Although the negative aspects of these projects are not directly due to SMEs, it is linked to the problems they face. What must be stressed here is that, SMEs can continue without long-term profits, but they quickly break down when facing a critical financial situation. The direct cash flows of such projects are more important than the size of the profit or return of investment.

2.4.2 The Role and Contribution of SMEs to National Economies

Usually the role of SMEs and their contribution to the economy is measured through three key criteria: contribution to the operation, production, and share of the total number of enterprises in the economy.

The most important benefits of SMEs are as follows:

(i) SMEs are the main source of job creation in developed and developing economies alike. Nevertheless, some of the new jobs created by SMEs may be filled by workers leaving jobs in large businesses or other SMEs, rather than absorbing the unemployed. Hallberg (1999, p.6), therefore, recommends that the "estimates of net job creation in SME need to be viewed in the context of economy-wide unemployment rates -- new jobs created by SMEs may be filled by workers leaving jobs in large enterprises or other SMEs, rather than absorbing the unemployed".

(ii) SMEs are key seeds for large projects, and such establishments help the development of the less wealthy rural areas and low income levels and high unemployment rates. Small businesses are well-positioned to introduce and develop new ideas. This is due to their owners not having to report or seek approval from anyone else. The above factors created strong link between the small and large businesses as some activities and productions cannot be done by large firms from the cost point of view, hence large companies tend to outsource some tasks to the small firms (Hitt *et al.*, 2002).

(iii) SMEs provide a healthy working environment, where the owner of the business and employees work together for their common interests. The owner/manager of the projects being involved with the daily business operations with his/her employees creates a kind of atmosphere that raises the level of loyalty to the business from all workers, which in turn benefits the business.

(iv) SMEs can be a source of innovation through entrepreneurship culture, by providing a dynamic work environment. According to the Second OECD Conference

in Istanbul (2004 p.10) '...New firms must often have an innovative edge on their competition in order to survive, particularly in younger and high-technology industries where competitive pressure and firm churning are high. As such, they are often the source of new processes or products and contribute to productivity improvements in the economy as a whole'. New projects seem more likely to grow rapidly in some countries. This suggests the importance of ensuring that the business environment is favourable to rapid expansion of young, especially innovative firms, once they establish themselves.

2.5 SOURCES OF FUNDS FOR SMEs

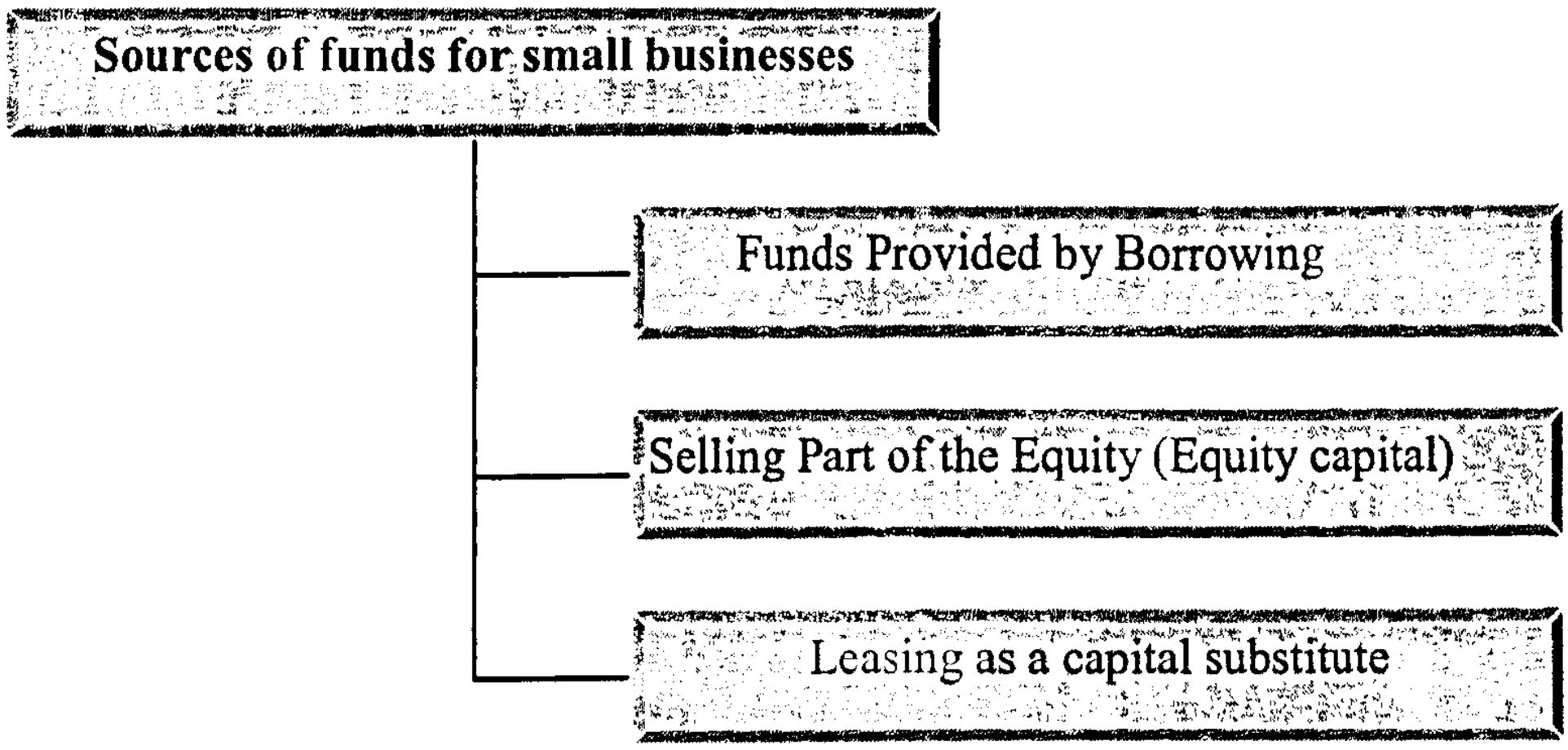
There is no doubt that all industrial enterprises, at different levels and sizes, whether new or existing ones, need adequate funding or financing and appropriate skills of management to achieve acceptable income and profit. It should be noted here that the SMEs need funding in different periods of their life--from the start of the enterprise to their development and modernisation. SMEs need funding in research, training and follow-up to keep pace with market developments and production, in addition to the cases in which a project is an exceptional event (UEAPME, 2006).

The complication of financial markets and the varieties of funds available in the capital market put entrepreneurs and other fund seekers in a proverbial maze. Fund seekers face hurdles in matching financial sources to business needs, as they are not aware of the techniques for securing the funds they need. Thusly, entrepreneurs should bear in mind that the best source of funds is that which fulfils business needs. Determination of accurate funds might take a longer time than anticipated by entrepreneurs, but would give better performance for the business. Entrepreneurs should first make the plans for funding but also make alternative plans (Aziz, 2008).

Broadly, the resources of funds can be divided into two main categories. The first is internal funds, in the form of personal and family savings. The second is external funding, such as borrowing from commercial banks in case of need, specialised banks which fund a particular sector, the specialised banks in financing the industrial sector or the agricultural sector, and other sources, which are usually specialised lending

institutions, often supported by the government and official bodies. Figure 2.2 depicts the wide array of external funds provided by banks and financial institutions, some details for which are listed below.

Chart 2.2 SMEs' Source of Funding



2.5.1 Funds Provided by Borrowing:

As far as personal loans are concerned, the first question asked by the creditors would be: 'how much has the entrepreneur invested in the business?' This question will apply mainly to a new firm. Naturally, every business involves an element of risk and uncertainty and so the creditor would like to gain a certain level of security by asking such a question. Entrepreneurs using the concept of trading in thin equity would reduce the possibility that creditors would be attracted to investing in the business. However, entrepreneurs usually will not be able to supply half or more of the initial capital needed, thereby requiring the entrepreneurs to seek funding by selling a part of the business ownership. Therefore it would increase the entrepreneur's chance of sharing the net profit in the business (Steinhoff and Burgess, 1993).

Loans provided by relatives or friends are very desirable for entrepreneurs. According to a survey conducted by Omar (2006) most SMEs relied on their own funds--34% and 23.6% rely on friends and family to obtain their funding. Integrating family or social relationships within the business environment could be the cornerstone of the

failure of the businesses. Interference of relatives in the business due to their stake in the business, would discourage the entrepreneur and reduce the performance of the business, although their intervention in the business is as a means of seeking security that their money is in a process of profit. An entrepreneur should make such relatives feel secure by meeting them periodically; making a clear arrangement for the pay-off of the loan and otherwise placating them.

A mortgage loan is one of the options for an entrepreneur to secure funding. Recent trends by banks are to enlarge the portfolio of mortgages and become more involved in this type of finance because of the level of securities the banks have in them. Also, entrepreneurs can secure a mortgage when they buy a commercial building with the payment spread over 10, 20 or 30 years, if the company operates during that time. A commercial mortgage is a growing fashion for banks for those seeking funds either for business or social purposes. Whereas commercial banks finance their customers with money as a loan by deposits into their bank account, Islamic mortgages are more secure for both parties as they involve asset buying and selling, instead. The bank owns the asset, before transferring it to the new owners with a fixed periodical payment (Ayub, 2007). The Islamic mortgage *murabahah* as will be mentioned in chapter three makes up for more than 80% of the Islamic banking activities.

For the daily operation of SMEs, banks credits have been the funding lifeblood. Bank loans are involved in most of the business activities and other loans are available from banks for a well-planned project or company. Collier and Mayer (1989) confirmed that most smaller enterprises in developing countries have short-term funding and banks are the principal source of finance. Entrepreneurs should satisfy the banks' uncertainties in terms of how the firm would pay the money and interest back as well as how the money will be used. In addition, from experience, the relationship built by the entrepreneur with a local banker would help to gain the loan and reduce the risk of failed loan payments. The Islamic point of view does not approve this type of loan as taking interest out of a loan is prohibited, and, therefore this type of loan is very rare. The only popular loan amongst Islamic banks is an interest-free and charitable loan '*gard hasan*'.

2.5.2 Selling Part of the Equity:

The basic idea of this transaction is to attract an external capital owner. The entrepreneurs use this method of finance when they are not able to raise enough capital to start their venture or would like to involve a third party to share the risk. Partnership is the most popular technique of raising capital, especially in the Gulf region and Arab Peninsula. One of the risks involved here is a management friction of partners. Partnership should come under the umbrella of an agreement which identifies specific obligation and authorities of each party and outlines the schemes and prices for dissolution (Steinhoff and Burgess 1993). A potential for successful partnership break-down is as a result of serious disagreement not anticipated in the agreement. Unlimited and mutual liabilities of the partners are serious disadvantages of such a partnership agreement. The partner is liable for any debts contracted to by the other partners.

A common misconception held by some small business owners or managers is that the corporate form of organisation is only appropriate for large businesses. The modern corporation was created mainly to deal with a problem of unlimited liability and limited life that exist with partnerships and also with proprietorship. However, this legal form has not been used as widely as it should be, because of entrepreneurs' insufficient knowledge of its significant advantages and government regulation.

Financing small and medium business through venture capital is desirable (Durrani and Boocock, 2006). A venture capitalist is an investor who specialises in financing proposal of high-risk businesses where banks have refused to finance them. Entrepreneurs have to develop a proposal of venture capital consisting of specific business details in order to induce the venture capital company. The fund provided by the venture capital company is usually in return for ordinary shares, preferred shares or direct loans. For the case of protection the venture capital company assumes control of management.

2.5.3 Leasing as a Capital Substitute:

Leasing has become an increasingly popular technique for acquiring assets for SMEs in recent years. Normally, this takes the form of a long-term contract. The advantage of leasing as opposed to other types of funds is that no large initial cash injection is required and payment is spread over a long duration; the other advantage is taxation. Also, an entrepreneur might have no desire to own the items and thus add them to the fixed assets of the company. Two financial groups of leasing are considered here briefly: financial leases where the lessor gives permission for regular payments and the leasing company maintains the leasing items in good condition until the leased items are returned; and an operating lease where the lessor ensures maintenance (Gallardo, 1999).

2.6 FINANCING OBSTACLES AND PROBLEMS FACED BY SMEs

The growth and development of the SMEs throughout the world is facing a number of problems, which vary from one region to another and from one sector to another. In addition, there are some common problems faced by all SMEs worldwide, as the nature of the problems faced by SMEs sometimes overlap. In general, some of these problems are internal and occur within the institution or by the owner, while external problems occur due to external factors. For example, "Rajan and Zingales (1998) show that financial development positively affects the growth rate of industries relying heavily on external financing" (Galindo and Micco 2005 p.6). By means of a literature review and considering previous studies, it was possible to summarise the most important financial problems facing SMEs globally, within this study.

(i) The cost of capital: this problem impacts directly on the profitability of such projects, through the application of SMEs to pay high interest rates compared to those paid by larger enterprises. In addition, the dependence of SMEs on borrowing from banks as one of the capital providers results in an increase of costs. The lack of financial information required by banks, increases the transaction costs for the lenders, hence banks and venture capitalists do not have reliable financial information

which would over-price the fund and in regard this cost the SMEs (United Nations Report 2002).

(ii) Inflation: in terms of its effect on certain factors such as prices of raw materials and labour costs, as this will inevitably lead to higher operational costs. These companies encounter serious difficulties when they face competition from large establishments, therefore preventing and limiting their ability to raise prices to avoid the impact of higher wages and prices of raw materials.

(iii) Funding: SME are exposed to financing difficulties because of their size, resulting in a lack of credit security, and because their relative novelty results in the absence of a credit record. Accordingly, financial institutions are exposed to a number of risks in the financing procedure of SME projects, at various stages of their developments--from foundation or the primary stage, to the secondary stage, as well as the merging. For instance, commercial banks avoid providing the necessary funding for projects in the aforementioned stages, hence the potentiality of such risks. As a consequence, they may decide to reduce risks or supervisory burdens by tightening credit standards for SMEs (Draft Report November 2004).

(iv) Taxation: the tax system is one of the most important problems facing SMEs worldwide. The problem is double-sided, both impacting the owners of SME (due to high tax rates) as well as the tax institutions, due to the lack of adequate data in this regard.

2.6.1.1 Obstacles faced by commercial banks in financing SMEs industries

The low financial contribution to this sector is due to a number of factors. Some of them are reviewed here in a brief manner. However, it should be noted that the constraints faced by commercial banks in providing funds, as well as the obstacles that impede financial activity of specialized lending institutions are important in evaluating the financial performance of SMEs. Based on the above, the shortcomings in the financing of SMEs by commercial banks can be attributed to the following factors:

(i) High administrative costs and high risks associated with the implementation of these loans. For this type of bank loans, compared with normal lending, the banks usually attempt to avoid any potential banking risks. The risk surrounding these industrial projects, specifically small and medium-size, amount to sufficient justification for commercial banks to avoid funding these projects, unless there is fulfilment of high bank's credit application conditions (Brussels, October 2007).

(ii) Low levels of adequate credit applications, which are not accepted by the banks, which leads to a decline in the volume of credit provided to SMEs. Difficulties faced by commercial banks in trying to liquidise the assets of these projects in view of the decline on the one hand, and social considerations on the other, are issues of relevance. Limited knowledge of banking practices by owners of SMEs has been pushing entrepreneurs away from the banks and force them to obtain funding for their projects elsewhere (Hallberg 2000).

2.6.1.2 Obstacles faced by the specialised lending institutions in financing SMEs

Due to the particular financing needs of SMEs, sometimes governments create specialised credit institutions to support and provide loans to SMEs. As they are offered by the public sector, this fact may encourage SME owners to use these loans for purposes other than those declared prior to when they were obtained, and to avoid repayment. In particular, moral hazards and asymmetric information issues have to be taken into account. This also accounts for the financial commitment not being reimbursed in a timely manner. In other words, entrepreneurs think the government-backed institutions would be much easer to deal with compared to private banks because the government intervenes to help them while the banks only seek to maximize their profits (The NCB Market Review, 2003).

It should be mentioned that the establishment of specialised lending institutions was part of an effort to bridge the financing gap between SMEs and capital providers, while also attempting to provide adequate funding for each sector. The objective of these institutions since their inception was to enhance the credit market, but it was unable to avoid the risks of lending. These kind of risk-managed loans are countered

by commercial banks through the placing of impediment guarantees for the financing of SME.

It could be argued, in general, that any activity practiced by any financial institution regardless of their nature must face some obstacles. These constraints differ depending on the diversity of lenders, for instance, if commercial banks are involved, the obstacles for borrowers are to provide the necessary guarantees to claim funding. If the lending institution (fund providers) is a specialised authority, a lack of commitment to the real purpose of obtaining a loan and failure to discharge the obligation to repay are key. If the capital provider is a government, the borrower regards that loan as charitable and thus does not consider it necessary for it to be repaid (Saudi SMEs Funding Guarantee Program, 2004).

The obstacles faced by financial institutions are a lack of confidence in the projects, resulting in frequent losses of the creditworthiness from the perspective of the financial institution, which, therefore, explains the lack of sufficient guarantees (collaterals) for the granting of SME-financing for the project. Also, small-scale projects have less experience in the basics of banking transactions, banking facilities as well as services, therefore causing them to ignore some banking facilities' advantages.

2.6.2 SMEs Financing Gap

Harding (2002) confirmed that in the US financial market, there was no general evidence of any existence of financing gaps especially in the high-technology sector, hence the financial support is strong. By contrast in the UK, a report conducted in 1971 by Bolton concluded that SMEs faced actual disabilities in seeking funds and the reason behind this was asymmetric information, also confirming the existence of equity gaps. The other gap in the UK market confirmed by the report is the information gap caused by lack of awareness of funding opportunities among SMEs. Broadly, the Wilson Committee (1979, 1980) reached the same conclusion as Bolton, only in terms of the equity gap.

It is, therefore, essential to differentiate between market imperfections or perceptions of gaps and actual gaps. The issue of financial gaps in the capital markets is complicated, as in these markets it is an accepted practice for the provider of capital to have the discretion to refuse to finance some potential fund-seekers for unspecified economic and financial reasons (Brierley 2001). A potential borrower must not only be willing to pay the going price of the loan (floating interest rates), but must also satisfy the bank that the loan will be repaid in the agreed time. Hillier and Ibrahimo (1993) describe the act of capital provision as someone buying a risky promises to be paid back within a fixed time. This argument suggests that some firms will be, and should be, denied financing. Thus, the fact that some firms cannot obtain capital is therefore not necessarily evidence of a financial gap. A gap or imperfection may, however, be implied if particular categories of firms that ought to receive financing are systematically unable to obtain it (Equinox Management Consultants 2002).

An important starting point for this section is to consider different dimensions of financial gaps. A recent report conducted by the Business Development Bank of Canada (BDC 2001), mentioned that there are some potential gaps in the market for venture capital and other potential gaps in the market for debt capital for SMEs. Some such rationales for the gaps are: (i) size gap is the assumptions that entrepreneurs who seek small loans perceive their borrowing needs to be too small to attract institutional lenders (ii) risk gap is where lenders do not price loans to reflect risk, normally the capital provider overprices the loan and reject insufficient collateral provided by borrower. The last financing gap in a debt market is a knowledge gap, namely that financial institutions do not understand knowledge-based businesses and SMEs find it difficult to designate the desired loan. The venture capital market also contains gaps, due to difficulties of meeting interested parties in such transactions, hence these include: (i) the gap of early stages, which reflects that small early-stage companies are not the strategic concern of most private investors as they entail a high risk; (ii) the institutional gap represents a lack of involvement in the venture capital sector of mutual funds, investment funds and other such institutional funds.

Financing gap is not a well-known expression worldwide as many countries do not report the phenomenon, although SMEs claim that they do have financing problems or difficulties, hence financing gaps or financing problems are two sides of the same

coin in most SME literature. The lack of funding available or obstacles facing entrepreneurs in securing funds from the financial sector for their SME projects, is known as the "financing gap" in this research. Financing is necessary to help SMEs start up, expand their operations, develop new products, and invest in new staff or production facilities. Most SMEs start out as an idea of one or two individuals, who invest their venture money in a specific project and most likely turn to family and friends for financial help in return for a share in the business. However, if they succeed in their businesses, they move to another stage when they need new investment to expand or innovate further. That is where they often begin to struggle compared to larger businesses; they find it much harder to obtain funding from any capital providers such as banks, capital markets or other suppliers of credit.

Potential creditors or investors find it difficult to distinguish the financial situation of the company from that of its owners. The entrepreneurs may have re-mortgaged their assets such as houses, to acquire the start-up funds for the company. If the owner of the company dies or becomes irresponsible by law, is there someone to take over the business, or be in charge of all the commitments?

The definition of SMEs varies between countries and financial institutions, as was mentioned previously. Some only compile figures by size of loan, not by size of the company borrowing, and some do not keep regular statistics of SME lending at all, particularly the developing countries (OECD 2006a). Also, a lack of basic information about how wide the gap is may be considered one of the fundamental problems in dealing with the SME financing gap. According to the OECD, often the only evidence is in the form of complaints from SMEs themselves and this is difficult to use in analysis or for comparison. Moreover, this is the case only in OECD countries – outside the OECD area, information is even scarcer. While the SME financing gap is more pervasive in emerging markets, business financing overall is not a problem in the OECD countries, where banks are adopting strategies to cope with reducing the risks of lending to SMEs and where there are well-established systems for raising money through banks and capital markets (OECD 2006b).

As the financing gap takes place mainly in developing countries, governments should dedicate efforts to improving awareness amongst entrepreneurs of the range of

financing options available to them from all capital providers such as officials, private investors and banks. Also, governments need to be able to measure the size of the SME financing gap and evaluate the impact of government actions on this. One of the recommendations regarding the government intervention, conducted by the OECD and non-OECD governments, according to OECD Policy Brief report in November 2006, is that governments asked the OECD to take the lead in establishing international benchmarks to facilitate comparisons of the relative performance of markets in providing financing to SMEs and entrepreneurs and to shed light on outstanding financing gaps and issues.

2.7 CONCLUSION

SMEs are the backbone of any economy, due to being a major source of employment and diversification of economic activities and technical innovations. Aware of the importance of this type of economy, most countries have developed mechanisms by facilitating regulatory actions and by providing support and financial incentives to promote the growth of SMEs. The remarkable technological advances and market liberalisation through globalisation have led to new challenges for these projects, especially in developing countries. The world economy has witnessed the emergence of new generations of small enterprises which were able to benefit from the advantages of this new situation which allows access to knowledge, capital and access to large markets at the same time.

The access to official sources of finance is one of the obstacles sustaining growth for SMEs. Traditional financial institutions avoid financing these SMEs due to their weak credit records, especially for new firms and those with weak administrative structures. Last but not least, the inability of these companies to provide guarantees required in accordance with the requirements of financial institutions leads to the creation of financial gaps and obstacles.

CHAPTER THREE
ISLAMIC FINANCE

3.1 INTRODUTION

There is no doubt that Islamic financial institutions have penetrated the conventional market in recent years and gained wider acceptance and appreciation. In the last two decades, the Islamic financial industry has faced many challenges with regard to becoming more globally active and in portfolio diversification. One of the difficulties faced by Islamic financial institutions is that they are not recognised as banks, and, therefore, by Islamic law cannot utilise government securities (Hefferman 1996). The nature of the techniques employed by Islamic bank depositors and lenders are not compatible with the Western system, as depositors appear to have greater protection under the conventional system. In the case of loans, the only loan type permitted by Islam is *qard hasan*, the purpose of which is to help needy people; Islamic banks do not provide personal loans or lending to cover education or health costs. Only the Bank Islam of Malaysia offers educational loans, but not on a significant scale.

An indication of how Islamic banks are on the international track is that the principles followed by these financial institutions are now much better understood all over the world. Other indicators are the complete or partial Islamization of banks in many Arab and Muslim countries such as Sudan, Pakistan, Malaysia and Iran, and the Islamic windows adopted by conventional banks. It can be said that the spread of Islamic finance has given customers more options.

According to Al Salam Bank Managing Director and Board Vice-Chairman, Hussein Al Meeza (2008), the assets of Islamic banking worldwide are calculated at US $450 billion, based on the performance of about 270 Islamic financial institutions. Furthermore, a report by Citigroup show the estimated market size of Islamic equity investment funds is US $3.3 billion, which means there has been a growth in the market of more than 25 per cent over the last seven years (Zawya Report 23 January 2008). The principles of Islamic finance are not new; they can be traced back to the

time of the Prophet Muhammad (peace and blessing be upon him). However, in order to deal with modern economics and finance, whilst at the same time complying with *Shariah* law, further development and the adoption of new ideas and innovations is required (Wilson and Baldwin 1990).

There are many books and articles which are very useful in terms of the knowledge they impart concerning Islamic banking and finance. There is still, however, a need for more innovation and flexibility regarding the global economic and financial movement. There is also a need for a more empirical study to be undertaken (Elhiraika 2004).

Islamic banks and financial institutions are organisations which deal only in interest-free transactions, and the inherent attitude of Islamic finance encompasses participation. It is well known that the element of interest (*riba*) is prohibited in Islam. Islam does not treat money as a commodity and money has to be used only for productive purposes. This has led Islamic scholars, economists, researchers and others to carry out significant investigations into the Quran (the holy book of Islam) and the *Sunnah* (the guidance of the Prophet Muhammad) to find a basis for financial dealings that complies with *Shariah* obligations. It is important to mention here that *Shariah* law reflects the totality of Allah, who commands and regulates all aspects of Muslim daily life.

Interest is a central component of the functions of the conventional financial system, whereas the crucial distinguishing feature of Islamic banks is the absence of fixed interest rates on deposits and loans. As interest is prohibited in Islam, the alternative, namely profit and loss sharing (PLS) has been developed. PLS is a central component of Islamic banking, as is demonstrated in the theoretical literature on Islamic finance (Dar, 2001). The other rates of return for Islamic banks are achieved through a subsidiary marking-up instrument.

PLS is an agreement between two or more parties wherein a contract is signed, agreeing that their economic resources will be pooled in order to invest in a legitimate project and any profit or loss will be shared at a predetermined percentage. The consensus of Islamic economists is that PLS is a mode of Islamic finance based on

financial contracts such as *mudharabah, musharakah, muzaraa* (agriculture contracts) and *musaqat* (irrigation contracts). Islamic banking is theoretically based on PLS between the bank and depositor on one hand and between the bank and borrower on the other. A suggested form of Islamic banking functions using a two-tier PLS model, *i.e.* the bank accepts the deposit in the form of PLS and lends it to the entrepreneur in the same form. Islamic banks are capable of offering services that do not involve the charging of interest, such as current, investment and savings accounts. The current account is designed to protect the customer's money. The mobilisation of deposits, which is based on trust financing and partnerships, is more convenient for the holders of savings and investment accounts.

This chapter starts with a brief introduction to the primary *Shariah* principle of *muamalat* (transactions) to provide a greater understanding of the demand for innovation and creativity in Islamic banking and finance which are compatible with *Shariah*. Subsequently, there is a discussion of the prohibition of interest and the fixed return or mark-up based schemes which are the other modes of Islamic finance such as *murabaha* (cost-plus profit financing), *ijara* and *ijara wa-Iqtina* (Islamic leasing), *salam* (deferred delivery), *istisna* (mode to order), *ju'ala* and *qard al hasan* (good loans). The second section discusses PLS, which is examined in detail, and definitions are given for *musharakah* and *mudharabah* and their backgrounds discussed.

3.2 THE PRIMARY SHARIAH PRINCIPLE OF MUAMALAT (TRANSACTIONS)

The primary goal of Islam is *falah* (well-being) and the primary intention of Islamic economics is to maintain a balance between economic well-being and socio-economic justice. The equitable distribution of wealth and income is also of concern. Because of the concept of *falah*, which is both a social and an individual target, Islamic banking and finance has gone to some lengths in terms of developing varieties of products and services compliant with *Shariah* law.

It should be noted that under *Shariah* law, everything is permitted unless clearly prohibited (Al-Rifai and Khan, 2000). This principle relates to *muamalat* and is the consensus of all jurisprudents. Therefore, being involved in business activities, from an Islamic point of view, is permissible, desirable and encouraged. Innovations and creativity in business are also permitted as long as they avoid any activities, which are prohibited in Islam, e.g. any type of *riba*. Moreover, it has been emphasised that joint ventures should involve very detailed contract terms and conditions in order to avoid disputes. A well-designed contract will help the investor understand his rights and the legitimacy of gaining profits and bearing losses. Sharing in profit goes with bearing liability.

Although, Islamic banks try to mobilise their resources through their deposit or shareholder equity, the experiences of Islamic banking so far show that institutions have tended to emphasise capital accumulation rather than mobilising resources (Choudhury, 2001). It can be theorised that this trend means that Islamic banking is failing to fulfil the intent of Islamic law (*maqasid al-Shariah*).

3.3 PROHIBITED ELEMENTS IN THE ISLAMIC FINANCIAL CONTRACTS

The prohibition of *riba* in Islam is unequivocal, absolute and very strict as it leads to injustices and exploitations, to which Islam is opposed. However, when we say interest do we mean *riba*, usury or both, and are all types of interest prohibited? There are verses in the Quran, such as Surah Al-Baqarah verses [2:278-279], 278, where the prohibition of *riba* is mentioned clearly:

> "O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do not, take notice of war from Allah and His Messenger: but if ye turn back, ye shall have your capital sums; deal not unjustly, and ye shall not be dealt with unjustly".

It is narrated in the *Sunnah* that Prophet Muhammad (peace be upon him) said:

> "*Riba* has seventy segments, the least serious being equivalent to a man committing adultery with his own mother" [*Sunan Ibn Mâjah* with an authentic chain of transmission].

The term *riba* is an Arabic word meaning usury, interest and beyond. Therefore, *riba* includes interest in all its derivations (Warde 2000). There is a consensus among all Islamic religious schools regarding the comprehensiveness of *riba*. To some extent, jurists such as the past Mufti of Egypt and the contemporary Shaikh-ul-Azhar, believe that the prohibition applies only to excessive interest, "usury", and the interest taken from banks by depositors is simply a share in the profit. This is clearly an incorrect interpretation of the above verses.

Interest is also about moral principles; it can be assured that, if a change is socially reprehensible to a radical extent, it is unacceptable in small amount as well (Choudhury and Abdul-Malik, 1992). This is also true where usury is excessive *riba* and interest is minor *riba*; in each case the seed of *riba* exists, thus the prohibition applies to both. In the New Testament, quoted by Wilson (1997):

> Luke 6:35 clearly states: "Lend, hoping for nothing in return". The Old Testament teaching is spelt out in Exodus: "If you lend money to any of my people with you who is poor, you shall not be to him as a creditor, and you shall not extract interest from him. (22:25)

3.3.1 *Riba*

According to the Fatwa Department Research Committee - chaired by Sheikh `Abd al-Wahhâb al-Turayrî "...Interest may be defined as any increase in the same commodity during trade or in a loan. Any increase on the principal paid by the debtor to the lender is interest". The rationale and wisdom behind the prohibition of interest can be classified briefly into different categories. Conventional theories of interest are based on the value of time as a reward for the deferred consumption of the owner and as a compensation for spot liquid money. Islam does not neglect the value of time, but believes that other methodologies can be put into practice. From the Islamic perspective profit-sharing per time is the alternative to interest. Time is in the hands of Allah, and, therefore no one can charge for time. Life expectancies differ from one to another and people never know how long they may live. Thus, this elicits different factors, such as moral issues (Wilson 1997).

Ibn-Taimiyah, in his justification for the prohibition of *riba* mentions that using money to generate more money is unjust; money should be the focus of an exchange involving other resources and producing something in real terms (Islahi, 1988). Using money to generate more money causes the transfer of wealth from the borrower to the lender without the latter being involved in anything productive but receiving more than they have given. The influence of interest on inflation leads the demand and supply curves to rise, whereby more is spent than is really owned and prices respond as the result. Conventional interest is a reward for the elimination of risk, whereas from the Islamic perspective the reward is profit, not interest. In other words, *riba* is considered a structure of injustice involving the exploitation of one by another. Consequently, the Islamic economy is asset-based and involves risk sharing, fairness and justice for all parties. In contrast, the Western economy is debt-based and transfers risk from one party to another.

Islamic scholars have classified *riba* as being of two kinds; these are *riba al-fadl* and *riba al-nasia*. The former involves commodities; where there is a simultaneous exchange of the same type of commodity with differ in either quantity or quality. It is narrated on the authority of Abu Said Al-Khudriy that the Messenger of Allah (peace be upon him) said:

> "Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt; like for like, hand to hand, in equal amounts; and any increase is *Riba*".

So, one might ask, what is the benefit of exchanging the same commodities in equal quantity and quality? The answer is, because, it is prohibited to have a different quantity or quality of the same commodity, therefore one of the parties can sell his commodity in the market and exchange with the other. They will be able to have a just transaction at a fair market price, or as El-Gamal (2001) puts it: "marking-to-market". By marking to market the trader will be able to approach the target of the prohibition of *riba*, which is a just price. An implication of the Hadith, as interpreted by the Hanafi scholars, is that the prohibition of the commodities listed can be extended by analogy to include all items measured by volume and weight. Consequently, *riba al-fadl* can be described as the usury of extra or surplus. However, *riba al-nasia* involves the exchange of the same type of commodity in equal quantities and qualities but not done simultaneously. The exact translation of

riba al-nasia is "usury of waiting", which is mainly relevant for dealings in money, e.g. loans.

Moreover, *Riba Al-fadl* and *Riba Al-nasia* can be incorporated into two kinds of transactions: *Riba Al-qarud* (loan) and *Riba Al-buyu* (trade). The first of these is a loan consisting of the two kinds of *Riba*: *Riba Al-fadl*, where the commodities are the same, i.e. "money", and *Riba Al-nasia*, where the exchange is not simultaneous. In other words, in this transaction both the delay of payment and a surplus exist. *Riba Al-buyu* is usury in trade. The two kinds of *Riba* exist when the traders have not matched the quantities and qualities of the commodity or have not traded on the spot.

3.3.2 *Gharar*

The Arabic word *gharar* means risk, uncertainty, and hazard, although all contracts involve future aspects and uncertainties as essential elements. Islam prohibits *gharar* because of the excessive uncertainty involved. Beyond that, the element of *gharar* is also found in cases where the gain of one party is the result of the loss of the other, or as Al-Suwailem (2000) puts it: a "zero sum game". Therefore, *gharar* is a contractual uncertainty where the contract stipulates the gain for one party only. There is also contractual uncertainty where the prospects of the existence or non-existence of the object matter are equal.

Ahmad and 'Ibn Majah narrated from the Prophet of Islam, on the authority of 'Abu-Said Al-Khudriy states that:

> The Prophet (peace be upon him) has forbidden the purchase of the unborn animal in its mother's womb, the sale of the milk in the udder without measurement, the purchase of spoils of war prior to their distribution, the purchase of charities prior to their receipt and the purchase of the catch of a diver.

The rationale behind the prohibition of *gharar* transactions is that once such a contract exists, it breaks the vital condition of sale. That is, the vendor in *gharar* sells goods that he/she does not own as they are not yet in his/her possession as mentioned in the above *Hadith*. *Gharar* can be described as the sale of an unfeasible item, where it is

difficult to bring it into existence or specify its nature. Such a transaction carries the potential for a high degree of risk and uncertainty. On top of that, there is no need for such contracts as they will contribute nothing to the economy.

There is a consensus amongst all *Shariah* scholars regarding the four conditions that render *gharar* illegitimate. The first condition is that the *gharar* must be excessive, not minor. According to Kamali (2000, p. 85): "A slight *Gharar* such as *Gharar* in the sale of similar items that are not identical at one and the same price is held to be negligible". The existence of *gharar* in the case of cumulative contracts is also unacceptable. Thirdly, the *gharar* has to directly affect the context of the contract. Finally, if the people involved in the transaction are not in real need of such a contract then the *gharar* is not legitimate. However, if the contract exists for the welfare of society it will be acceptable even if the *gharar* is excessive.

3.4 CONTRACTS BASED ON MARK-UP SCHEMES

The Islamic financial system has two broad categories of banking activities for participating in the local as well as global markets. These are fixed return or mark-up schemes and profit-and-loss sharing schemes. The fixed return scheme is designed to be a subsidiary of Islamic banking activities. However, the absence, in practice, of profit and loss-sharing leaves the door open for mark-up schemes to occupy the higher percentage of Islamic banking activities. In particular *murabaha* and *ijara* constitute the lion's share of banking transactions at present. According to Rosly and Abu Baker 2003, *murabahah* and *ijara* were involved in more than 90 per cent of the Islamic banking activities in Malaysia, while 93 per cent of Islamic bank activities in Bahrain and 88 per cent in Dubai currently involve *Murabahah* (Iqbal and Molyneux 2005). From the point of demand, these types of contract are currently used for customers' non-business practices such as the purchasing of houses and cars as well for business purposes such as the purchase of raw materials, renting vehicles and importing and exporting products. Banks prefer fixed return schemes over PLS because they are less risky and involve short-term monitoring contracts (Wilson 2002).

3.4.1 *Murabahah* (Cost-plus Profit Financing)

Murabahah is essentially a type of sale rather than a mode of finance. Accordingly when *murabahah* was first introduced in the banking sphere, lenders undertook this contract as a mode of financing for commodity and money. However, banks then went further and used the legal framework for investment projects, thus maintaining the isolation of the profit sharing contract. According to *Shariah* law, the ideal modes of finance are *mudharabah* and *musharakah*. Contemporary *Shariah* scholars have approved *murabahah* on certain conditions. Two points characterising this method must be set out:

1- It should be borne in mind that *murabahah* is not a mode of financing, according to Usmani (2000). Rather, it is only a device to allow avoiding "interest" and not an ideal instrument for carrying out the real economic objectives of Islam. The use of *murabahah* should be restricted to cases where *mudharabah* and *musharakah* cannot be used.
2- *Murabahah* as a mode of financing was brought into existence by *Shariah* experts who set some conditions; if these conditions are not met *murabahah* is not permissible.

Murabahah is a trade financing mechanism constituting the highest percentage of Islamic banking activities worldwide. It is appropriate for the partial financing of investment by customers operating in industry or trade. It enables the customer or investor to buy commodities, raw materials, machines or equipment from the local market or as imports. *Murabahah* involves asset-based financing, unlike interest fixed rates of return. The financier (the bank or financial institution) uses this mechanism at the request of their client. Where *murabahah* is used for import finance the financier funds the client, thus attracting more customers and forming a valuable means of investing idle funds in commodities. Within *murabahah,* there are two types of financing by means of which the client can obtain goods and/or cash (*al-tawarroq).* The former is where the client specifies the commodity and requests the financier to purchase it on his behalf, at cost plus an agreed fixed profit margin as well as a stipulated method of payment. *Al-Tawarroq* is where the client's aim is liquid money for non-business reasons. The client specifies the amount of money he needs and the

financier purchases goods from the market, to the value of the mentioned sum and sells them to the client with a mark-up. The client then requests the financier to resell the goods in the domestic market and give him/her the cash. For both types of *murabahah,* the financier holds the responsibility of ownership until payment is made. This justifies the mark-up scheme used by the financier; the profit made by the financier originates in the mark-up.

For both types of *murabahah*, conditions of sale are applicable. The critical condition is that the financier must finish the first transaction completely and be involved in the second one. Furthermore, the commodity must be purchased by the financier and remain in the financier's possession. The person undertaking a *murabahah* contract should create a gap between purchasing the commodity and selling it to the customer, and the risk of owning the commodity during the mentioned period should be borne with all its basic components and all its essential consequences (Usmani, 2000). The length of the gap mentioned is the time it takes for the financier to acquire ownership of the commodity. In case of a delay in payment, most scholars have ruled that the financier may get the client to agree, at the time of the contract, to make a pre-agreed donation to an agreed charity in case of late payment of a monthly instalment.

On the other hand, most Islamic scholars and economists are aware of the dangers stemming from asymmetric information in *murabahah* transactions, becoming widespread. The more *murabahah* transactions are used the more household debt will result. All customers of *murabahah* are debtors to banks or financial institutions. The balance between banks and clients, which Islamic economics strive to equalise, will by default disappear and banks will have control over their customers. In this case, the ethics of Islamic banking would seem to gradually disappear. The excessive use of credit financing would add no significant advantages to the existence of Islamic banks. It could be said that this mechanism merely replicates conventional banking instruments. A sub-contract of *murabahah* is debt financing which is carried out through a special-purpose vehicle. The bank collects its *murabahah* contracts in a portfolio and sells them to a third party--hence the bank is selling its debts. As there is no asset security, this transaction it is not compliant with *Shariah* principles.

3.4.2 *Ijara* and *Ijara Wa-Iqtina* (Simple Leasing Arrangement)

Ijara is an Islamic form of leasing based on a mark-up structure. The concepts of *ijara* and *ijara wa-iqtina* are similar to conventional lease instruments. *Ijara* in Islamic banks is a different option of ownership for the lessee over a specified period of time, whereas with *ijara wa-iqtina* the lessee owns the asset at the end of the period. According to Hasanuzzaman (1995) the main difference between leasing and hire-purchase agreements lies in the rights of the owner. With *ijara* the lessor is the owner of the lease asset, however long the period of the lease, whereas in *ijara wa-iqtina* the ownership remains jointly held until the lessee has paid the last instalment. *Ijara* works by the bank purchasing specific land or a piece of equipment required by the client and leases it to him/her. The object leased must not be perishable or consumable, as the lease is for the utilisation of the asset, not for its consumption. The subject of the contract must be actually and legally attained. In other words, it is not permissible to lease something that cannot be delivered. It is permitted to lease property to those whose major activities are permissible (*halal*) even if they include some secondary prohibited practices. The rent must be in the form of money, and the amount and timing of the lease payments should be agreed in advance. The lessor bears any liabilities when leasing the asset, such as damage to the asset, the payment of insurance premium costs and basic maintenance. In the event of the late payment of rental, the *ijara* may be terminated immediately. In addition, the lessor may claim compensation for any damage caused to the leased asset as a result of negligence on the part of the lessee.

Ijara differs from conventional leasing in major areas such as insurance, maintenance and management, which are the responsibilities of the lessor. In *Shariah* law, the lessor is responsible for these issues as part of the justification for the payment of rent, whereas in conventional leasing practices these matters are the responsibility of the lessee.

Traditionally, individuals were exclusively the ones to practice *ijara* as a mode of finance. However, Islamic banks have now become involved in *ijara* and have gone beyond the traditional *ijara* of financing assets. In turning to the global capital market, Islamic banking methods needed to be distinguished. Thus in August 2002,

the Malaysian Government issued the Sukuk Trust Certificate. The relevant issue relates to the sovereign sukuk. The issuing of sukuk was by means of a special purpose vehicle called the Malaysia Global Sukuk (MGS). The MGS issues sukuk to investors and uses the funds to buy parcels of land from the Government. The MGS then leases those assets to the Malaysian Federation. Eventually, the Government repurchases the parcels of land from the MGS at the value of the primary issuing amount of sukuk. The payment of leased assets is determined by the spread-over (LIBOR) and scholars have accepted LIBOR as being a reference mechanism. The reason behind the repurchasing of assets leased by the Government is that it is a means of securitising them. Sukuk is a concept similar to conventional bonds and they must be securitised. The income earned from these sukuk by the Government issuing and repurchasing them, goes to the investors (Aziz, 2004).

3.4.3 *Salam* (Post Delivery Sale)

Salam is a sale contract whereby the buyer purchases a specified commodity and pays the full amount in advance of the delivery date. The *salam* contract is therefore not permissible where an existing commodity is the subject. Normally, the buyer is a bank and the purpose of *salam* is to finance agricultural, commercial and industrial activities. By using this type of contract, the buyer benefits from receipt of the commodity whenever appropriate and does not bear the expense of storing it. The seller on the other hand also benefits by receiving cash at the time the contract is signed, which can be used to cover personal and business expenses. The *salam* contract is an ideal instrument for financing craftsmen and small producers. The buyer should give a clear description of the commodity and the time frame should be stated by the seller.

Major conditions of a sale are that the commodity actually exists and that it is in the possession of the seller. This does not happen in the case of a *salam* sale, thus the transaction consists of *gharar*, which is prohibited in Islam, as discussed earlier. Nevertheless, the uncertainty in the contract is very low and the social need for *salam* contracts eliminates the potential percentage of *gharar*. All four religious schools and contemporary *Shariah* scholars have agreed that the *salam* sale is an exceptional case and such transactions are legal on the grounds of necessity. According to Kamali

(2000, p. 85): "The *Shariah* thus validates *Salam* (advance purchase) and *Istisna* (manufacture contract) regardless of the *Gharar* element therein, simply because of the people's need for them".

Third parties can be involved on both sides. For example, if the seller has committed him/herself to deliver the commodity, it is his/her responsibility to either grow or manufacture it by him/herself or to form a subcontract with a third party to do so. From the buyer's perspective, he/she can receive the commodity, authorise the seller to find another buyer or direct the seller to deliver the commodity to a third party

There have been attempts to issue *salam* sukuk. However, the *salam* sale is a mixture of debt and trading which the *Shariah* scholars believe should not exist because of the impermissibility of trading in debt. Moreover, the *salam* sale is a deferred contract because the commodity does not yet exist. When the seller has delivered the commodity, the buyer can issue sukuk but this would be *ijara* sukuk or another type of sukuk.

3.4.4 *Istisna*

The vast majority of *Shariah* scholars judge *istisna* to be a division of *salam*; consequently it is encompassed into the definition of *salam*. However, the Hanafi School views *istisna* as an independent and distinct contract type. *Istisna* is the second type of sale where a commodity is transacted, before it comes into existence. The contract of *istisna* places a moral obligation on the seller or producer to manufacture the goods. However before the producer starts the work either of the parties can give notice to the other to cancel the contract. The purchaser has the right to rescind the agreement if the commodity does not match the specifications demanded.

Any contract falling under the umbrella of BOT (build, operate and transfer) is categorised as an *istisna* transaction. This type of contract permits a wide array of requests to Islamic banks to finance public need projects and the fundamental interests of society, in order to develop the Islamic economy. The functions of *istisna* mainly involve high technology industries such as the aircraft, locomotive and ship-building

sectors, in addition to the heavy machinery industry. The *istisna* contract also plays an important role in the construction industry such as in the building of apartments, hospitals, schools, universities etc.

Istisna differs from the *salam* sale in that, a) full advance payment is optional; b) there need not be a fixed date for delivery; c) cancellation of an *istisna* contract can be made only before the manufacturer has started dealing in the agreed items; and d) the subject matter of the contract is custom.

3.4.5 *Ju'ala*

Ju'ala is a predetermined price for performing a specified task. Individuals or institutions can use *ju'ala* contracts where they declare that if someone can do a specific job they will be paid a certain amount of money. The one who makes such a declaration is called the *ja'il,* and the person who carries out that work is called the *amil.* Where the *ja'il* has not specified the amount he/she is willing to pay for the work to be done, and if part of the task has been performed, the *ja'il* must pay the *amil* according to what is customarily paid for such work. The *ja'il* does not have to be the owner of the things he has declared for. The *amil* is not entitled to claim anything if he does not finish the job.

The practice of *ju'ala* has been approved by Hanbali, Maliki, Shafei and some of the scholars of the Hanafi School, although the majority of Hanafi scholars do not approve of this type of contract. From their point of view, this contract involves unknown elements, which opens the door to excessive uncertainty and gambling. Other scholars believe that this is a promise rather than a contract, and as such can be made by one party. If this is the case, it should be dealt by another perspective.

The jurists have interpreted bank charges to be *ju'ala*; hence they comply with *Shariah* law. *Ju'ala* can be used in areas such as exploration and drilling for oil, water walls, agriculture, the collection of debts and academic research.

2.4.6 Qard Hasan

Qard Hasan is a beneficial loan that is repaid at the end of the agreed period. There is no profit or loss sharing with this type of loan unless the borrower, whenever a profit appears, pays an additional sum to the lender without prompting. For example, in 1983 the Malaysian Government introduced Investment Certificates for liquid short-term finance. These enabled banks and individual to lend short-term funds to the Government as a *qard hasan.* The payment of the principle amount is obligatory and the payment of a reward for the loan is at the Government's discretion, as a borrower. *Qard hasan* is mainly used for non-business purposes such as the mitigation of personal hardship. In some cases it may be used to finance small businesses but only for a limited duration. *Qard Hasan* contracts should involve two parties capable of entering into a written contract, and there should be two witnesses.

Islam recognises the loan as a form of social service on the part of the rich to help the poor and people in need of financial assistance. From the Islamic point of view, a loan can be obtained in two ways: (1) a loan with the condition of repayment of the principal only, (2) a non-repayment, or gratuitous loan, this being the exact translation of *qard hasan*. The reward for the second type of loan will be from Allah only, because the lender performed it for the sake of Allah. Thus, Islam supports and encourages the kindness of people by rewarding them in the hereafter. The practice of *qard hasan* serves to promote a brotherhood among Muslims, a notion emphasised by Islam. Consequently, the Islamic banks can use *qard hasan* to raise their profiles and reputations and to help improve society.

3.5 ISLAMIC EQUITY FINANCE IN TERMS AND TIME OF CONTRACT

Assuming that an entrepreneur has an idea for a new project and is seeking funding, his first instinct may be to borrow from a conventional bank. Due to the fixed return nature of the interest, banks will charge a certain interest rate, which incorporates all the risks. In contrast, the entrepreneur must, by law, pay the principal and interest back to the bank over a fixed period, irrespective of the fate of his business. This would seem both unfair and unjust (El-Gamal, 2000; Chapra, 2000).

Under the umbrella of Islamic finance the above scenario would not be possible because of the prohibition of interest and the general notion of 'no pain no gain'. Islam considers interest to be an immoral gain that involves the exploitation of the needy. Consequently, the entrepreneur would seek a partner who is entitled to receive a portion of any profit and share the liability of any loss. In this case the entrepreneur would seek sources of financing such as *mudharabah* and *musharakah*, which can be regarded as types of equity financing but with their own unique characteristics.

Islamic financing involves trading through one type of equity financing or another, where there is a fair return for investment, which is transferred to the capital owner and the capital user, rather than the entrepreneur bearing the entirety of the burden.

3.5.1 Types of Islamic Equity Financing

Islamic banks offer two alternatives to interest-based lending: loans made for a definite duration without interest or equity financing. As mentioned earlier, Islam encourages this type of loan. Equity financing can be for an indefinite period, such as shares in a joint stock company, for a definite duration (short, medium, long term), or can involve shares in a partnership. Equity investments in the Islamic sphere are similar to those elsewhere. Such equity arrangements include sole proprietorships, partnerships and joint stock companies (Chapra, 1985).

Sole proprietorship is a system wherein the entrepreneur depends on his own funding and management; if he temporarily needs extra resources for profitable opportunities or other reasons, he might seek finance from financial institutions or individuals on the basis of profit and loss sharing. In such a case the sole proprietorship converts to a form of *mudharabah* or *musharakah* organisation. From an Islamic point of view, such partnerships may be one of two types: *mudharabah* or *musharakah*. These contracts are called PLS contracts, which, as already indicated, means profit and loss sharing, which are known as Islamic modes of finance and are for raising and mobilising equity capital (Khalil et al., 2000).

The use of PLS methods in Islamic banking does not satisfy Muslim expectations. It is argued that PLS is employed in just 20 per cent of the activities of Islamic banks and institutions in spite of the fact it is meant to be the cornerstone of those institutions (Iqbal and Molyneux, 2005). The majority of economists believe that the reason for the sparse use of PLS is the agency problem, which leads to asymmetric information which, in turn, leads to moral hazards and adverse selection. All investors (financiers and entrepreneurs) in the capital market need sufficient and accurate information to help them to make the right investment decisions and reduce risk. Another reason may be the preference for Islamic banking as a short-term financing institution (Abalkhail and Presley 2002).

3.5.2 Background and Definitions

The practice of *musharakah* and *mudharabah* in the Arab world can be traced back fourteen century, to before the time of the Prophet Muhammad (peace be upon him). When the Prophet Muhammad (peace be upon him) started his mission as a Prophet and Messenger from Allah in that time of his advent, *musharakah* and *mudharabah* already existed and were practiced by the Arab people. Although the Prophet Muhammad (peace be upon him) did not specifically comment on these practices he was involved in *mudharabah* before starting his mission as a Prophet.

The emigration (*Hijrah*) of the Prophet Muhammad (peace be upon him) shows the legitimacy of the use of PLS; he commanded the *muhajireen* (the people who emigrated from Makkah to Madinah to seek Allah) and the *ansar* (the people of Madinah who helped the Prophet at the beginning of his mission) to be brothers. As a result, they became partners in different types of agreements such as *musharakah*, *muzaraa* and *mudharabah*. Jurists of Islamic schools such as Hanbali, Maliki, Shafei and Hanafi agree on the legality of PLS. The participation of these schools in this field, and the literature and analyses they have contributed are significant and have clarified these modes of Islamic finance. They have therefore become developed and independent institutions. All Islamic schools agree in principle, but differ over the application and conditions of these modes of finance.

3.5.3 Definition and Classification of *Musharakah*

Musharakah is a venture organisation where parties partake in the capital, labour or management of the business in equal or unequal proportions. Profit is shared as long as the parties share the risk and enjoy similar rights. The managers of these ventures are allowed to charge a fee or wage for management or other labour contributed to the project (Khan and Mirakhor, 1987). Losses are shared depending on each party's initial contribution to the capital. *Musharakah* can function in two ways.

Firstly, *shirkat-al-melk* (a non-contractual partnership) is a kind of *shirkat* involving co-ownership; the parties have joint ownership of the assets but have not entered into a partnership agreement. Such a case arises where two or more people receive an inheritance or gift of land or property, which may or may not be divisible (Chapra 1985). If the asset is divisible but the parties nevertheless decide to retain joint ownership, the *shirkat* here is called voluntary ownership. If the parties would rather not be joint owners but the asset is indivisible, the *shirkat* persists and transforms into involuntary ownership. *Shirkat-al-melk* is mainly concerned with the ownership of property, because its existence does not come by mutual agreement and the willingness to gain profit and bear loss.

Secondly, *shirkat-al-ugud* (a contractual partnership) is different from *shirkat-al-melk* in that the parties are willing to enter into a mutual agreement for the purpose of a joint venture and to share in the profit and bear the losses. The agreement between them does not have to be formal and written; it can be informal and oral (Chapra 1985).

Nevertheless, according to the Quranic teaching regarding important business transactions, it is preferable to have a formal written agreement which specifies the terms and conditions of the venture. According to the *fiqh* schools (religious schools), s*hirkat-al-ugud* is divided into four types:

1- *Shirkat-al-inan* (an unequal partnership contract) is where the participation of the parties does not need to be in equal proportions. The parties do not have to bear equivalent liabilities. Moreover, they do not carry equal responsibility for the

management of the project. Their liabilities and responsibilities are related to the proportion of their contributions and abilities. Thus, they act as agents, unlike limited conventional partnerships, where there is unlimited liability beyond the general partner's capital contribution. Limited partnerships have an indefinite contractual period whereas *Musharakah* takes place over a limited period (Ibrahim, 1998).

2- *Shirkat-al-mufawadah* (an equal partnership contract or full authority and obligation) is an arrangement in which capital contributions, profit, losses and liabilities are shared equally. The parties must be mutually involved and able to undertake responsibility for acting on behalf of each other.

3- *Shirkat-al-wajahah* (a credit partnership) is a situation where partners contribute their goodwill and reputation to the business rather than capital. This kind of *musharakah* is useful for small and medium enterprises. Through exploiting their reputation, they can raise funds from banks or capital markets; it is a type of partnership that exists everywhere.

4- *Shirkat-al-abdan* (labour, skill and management) is a kind of *musharakah* that takes the form of a general partnership business (Saker 1999). Historically, this was called *mudharabah*. In the case of profit or loss the *shirkat-al-abdan* will be regarded as the party's contribution of proportion.

There are other types of *Musharakah* which are officially permitted by Islam:

5- Permanent *musharakah* is where all parties undertaking the project are continuously engaged in the business.

6- Diminishing *musharakah* is where a partner to the contract can pull out from the business gradually by selling their shares to another partner. In the case of profit or loss, by selling some shares, a partner can reduce the proportion of their capital contribution. Where there is a capital reduction, the profits or losses of that partner will be reduced by the same proportion and consequently the shares of the other partners will increase. This differs from permanent partnership only in continuity. When banks or financial institutions enter into a diminishing *musharakah* their target

is not to stay in the partnership, thus banks specify a method of gradually selling its share in capital back to the partner.

This is a convenient method for financing small and medium enterprises. The bank can initially finance the whole project and control the management, with the entrepreneur participating by using his skills. As such, the bank is the owner and manager of the project. The bank can then gradually transfer the ownership of the project to the entrepreneur until he/she owns it solely. In addition, the bank can keep a small percentage of the ownership as a consultant agent. Islamic banks use diminishing *musharakah* as a basis for financing property (Dar, *et al.* 2002).

3.5.4 Definition and Classification of *Mudharabah*

According to Sarker (1999), a *mudharabah* contract is an agreement between two parties where one subscribes capital in the form of money and the other contributes only business skills and services. Thus, it is a short-term financing contract with limited liability. The sharing of profit is based on a ratio mutually agreed by the partners. If losses occur, they are borne by the capital provider unless the loss is due to the entrepreneur's mishandling of the business. Therefore, the entrepreneur does not invest anything in the project except his skill and management. The exception to this rule occurs when the entrepreneur has made a commitment to return the capital if he is negligent in his use of the funds, or if he breaches the conditions of the *mudharabah* (Iqbal and Mirakhor 1987).

Mudharabah has historically been divided into two main types: restricted and unrestricted. Restricted *mudharabah* involves ex-ante restrictions where the capital provider places certain limitations on the way in which the entrepreneur should trade his capital. These restrictions can include those relating to the activities that can be marketed, the type of commodities to be traded, when the trading is to start or whom the entrepreneur may trade with. The Shafia and Maliki schools, however, do not approve of restrictions associated with people and time.

By contrast, unrestricted *mudharabah* is a scheme in which the capital user can trade in any commodities in any market, at any time and with any person. The only

restriction here is that the business must be legitimate from the Islamic point of view. The influence of *mudharabah* on the bank's balance sheet is that on the assets side there is restricted *mudharabah* because the bank agrees as to the type of products to finance, specifies the agent or entrepreneur to be used and shares the profit according to a positive percentage. On the liability side, a contract between the depositors and the bank is an unrestricted *mudharabah* because the depositors agree in principle that the bank will use their deposits. Nevertheless, the bank as a financier is not the owner of the capital as is the case with conventional equity investors. Conventional equity finance involves capital gains and shares gains, whereas in the case of *mudharabah* shares are not tradable. Equity shareholders can benefit financially from either the increase in the price of shares or through dividends of the firm (Buckle and Thompson 1998).

In *mudharabah*, the capital provider is responsible for the burden of financial loss. This does not apply to *musharakah,* where partners bear the burden of financial loss according to their contribution to the capital. It is appropriate to mention some of the conditions applicable to *mudharabah*.

1- The first condition applies to both *mudharabah* and *musharakah,* where the capital should be in the form of liquid money. The capital must be well-defined and well-designed in terms of quantity and quality. The capital cannot be accepted in the form of a debt or be unpredictable; the capital should actually exist and be deliverable to the entrepreneur at a value enabling him to initiate the business. Only the Hanbali School approves of the practice of accepting only part of the capital to be delivered.

2- The eligibility of partners in a *mudharabah* contract is dependent on the point at which they join the enterprise. Hence, at the ex-ante stage the entrepreneur is considered a trustee in the capital of the capital provider. At the ex-post stage the entrepreneur is considered to be a substitute for the capital of the financier; the capital has been transferred to the entrepreneur as a trustee for a fixed period.

3- For the *mudharabah* to be legitimate there are certain activities the entrepreneur must not take part in:

- Selling and trading with other people on the basis of instalments without obtaining the authorisation of the financier. The reason behind this is that the majority of *Shariah* scholars agree that a *mudharabah* contract may be cancelled by any of the partners at any time. According to the Encyclopaedia of Islamic Banking and Insurance, 1995, the capital owner can afford to make frequent changes such as withdrawing his capital, even at a loss, or seeking a quick turnover even at a low profit margin.
- Integrating the *mudharabah* capital with the entrepreneur's own money; in this case the contract will, by default, be converted into a *musharakah* contract. However, if permission has been obtained from the capital owner the entrepreneur is entitled to the profit on his additional capital as well as his share according to the ratio as was fixed in advance (Siddiqi 1985).
- Depositing the *mudharabah* capital with other people as this would make it difficult to distinguish which part belonged to whom-- this in turn may create an agency problem. These legitimacy issues apply to both types of *mudharabah*. If the capital user involves himself in any of these activities without permission, he will be liable for any losses incurred.

3.5.5 Co-operative

Co-operatives are service-oriented organisations that are involved in achieving the equitable goals of the Islamic economy, which are mentioned above. They are not profit-seeking, but exist for the welfare of Muslim society as a whole. Historically, informal co-operation was widespread in Muslim society and was organised in different forms. These organizations reflect the brotherhood of Muslim society and fulfil the ordinary needs of businessmen on a co-operative basis.

The idea behind co-operation is to obtain some of the economic advantages open to large-scale businesses by establishing mutual funds. In addition, by working in co-operation, small and medium businesses can help each other to solve their problems regarding savers, consumers and producers, as the businesses in the Islamic economy are generally small to medium scale in character. Co-operation within different societies could allow information and experience to move back and forth between

members of those societies. Transparency of knowledge and personal expertise should both be valued by society.

Furthermore, co-operation between Islamic and conventional banks has become indispensable because of the fact that Western banks are introducing Islamic banking windows and most Islamic and Arab countries now have dual banking systems. For instance, the issue of cash liquidity cannot be solved either by Islamic banks in isolation or by the conventional banks, individually.

3.6 SMEs FINANCED THROUGH ISLAMIC MODES OF FINANCE: COUNTRY CASES

PLS, as mentioned above, is the core instrument of Islamic banking and finance. The lesson learned from the Islamic banking experience is that PLS contracts are essentially vulnerable to the agency problem and the potential for high risk. This can lead to the entrepreneur lacking a motive to work hard. Moreover, there is an incentive for him to show less reported profit than if he were self-financing (Presley and Dar 2000). As a result there is a negative relationship between the use of PLS and the size of profit. As far as SMEs are concerned, the structure of PLS investment contracts is sufficiently weak, from a legal standpoint, to make PLS financing more compatible with SMEs with regard to their expected returns in the medium term (Suseno 2002).

Sudan, for instance, Islamized its national economy and banking activities and gained wide experience of using PLS as a mode of financing SMEs. In the 1990s the central bank of Sudan started issuing annual finance policies to suit the mechanism of profit and loss sharing. These policies were introduced for the advantage of society as a whole. It was discovered that financing through *musharakah* is a profitable mode for financial institutions. The practical policies for financing small enterprises started in late 1994 (Ibrahim 2003). One of the priority sectors for banking finance is the small producer such as a productive family, craftsman or professional. The financing method used by these sub-sectors was mainly restricted to *mudharabah*. In 1994, financing per transaction amounted to 1 million Sudanese pounds or less. By late

December 1995 this had increased to 3 million, and in 1997 the central bank permitted banks to finance and obtain satisfactory guarantees.

In 1996 the financing policy introduced by the Central Bank with regard to *musharakah* stated that the participation portions for partners should be 10 percent for a small entrepreneur and 15 per cent for professionals and craftsmen. In 1997, these percentages were raised to 25 and 30 respectively. By 1999, it was left up to each bank to decide the percentage of participation. The explicit advice issued as part of the comprehensive central bank policy of 1999/2000 was that all banks should move gradually from *murabaha* to the *musharakah* mode of financing. Table 3.1 shows the gradual transition from *mudharabah* to other modes of finance.

The Faisal Islamic Banks of Sudan (FIBS) specialise in financing craftsmen. In 1985, Omdurmen was the first city to open a FIBS branch. The FIBS use only the *murabaha* mode for financing craftsmen, and the margin ranges from 3% to 4%, monthly. In 1993, the amount lent by the Omdurmen branch was 2.4 million Sudanese pounds. The Islamic Co-operative Development Bank (ICDB) uses the same formula for finance as the FIBS, but the ICDB specialises in financing small productive families. The ICDB has created a special fund for urban craftsmen (the Craftsmen Support Fund). The Nelein Industrial Development Bank Group (NIDBG) uses only *murabaha* as a mode of finance, however, the range for loans is slightly higher than the above mentioned banks--from 500,000 to 1.5 million Sudanese pounds. Third parties and social funds are acceptable to banks as guarantors. Table 3.2 shows the percentage of each mode.

Table 3.3 compares the use of PLS with that of mark-up finance. Rosly and Abu-baker (2003) assert there is a need for Malaysian Islamic banks to pursue diversification through partnership arrangements such as *mudharabah* and *musharakah*. Table 3 shows that the Islamic banks' share in the financing of SMEs has decreased.

Table 3.1 Percentage of Islamic Modes of Finance
Source: Ibrahim (2003)

Description, of financing policy	1994/1995	December 1995	Amendments June 1996	1998	1999	2000	2001	2002
The maximum financing	Not exceeding 1 millions Sudanese Pounds per transaction.	Not exceeding 3 millions Sudanese Pounds per transaction.	Not exceeding 1 millions Sudanese Pounds per transaction.	Not mentioned.	Not mentioned. 5% minimum financing of Productive Families, Small Producers and Crafts	Not mentioned 7% minimum financing of the sub/sector.	Not mentioned	Not mentioned Minimum financing is 10%
Mode of finance	Restricted **Mudharabah** or other financing Modes.	Restricted **Mudharabah** or other financing modes	Restricted **Mudharabah** or other financing modes	Restricted **Mudharabah** or other financing modes	Restricted **Mudharabah** or other financing modes	Restricted **Mudharabah** or other financing mode	Restricted **Mudharabah** or other financing mode	Restricted **Mudharabah** or other financing mode
Participation	Not less than 15% of total financing (craftsmen and professionals) In accordance With the agreement between the partner and the bank (small producers including productive families)	Not less than 15% of total financing (craftsmen and professionals) In accordance with the agreement between the partner and the bank (small producers including productive families)	Not less than 25% of total financing (craftsmen and professionals) 20% as maximum (small producers including productive families).	Not less than 30%	Left for each bank	Left for each bank	Left for each bank	Left for each bank

Table 3.2 Targeted Groups to Finance

Bank	Targeted group	Core mode of finance	% of finance out of total finance	Types of projects
SIB	Productive families, small enterprises, crafts and informal sector activities	*Murabaha* : 20% *Musharakah*: 74% *Mudharabah*: 6%	6%	Tailoring, shoes, soap- making, informal sector Activities.
FIB	Craftsmen, small producers and productive families	*Murabaha*: over 90%	5% (average 1993 1994)	Engineering workshops, machinery and equipment transport vehicles, bakeries and spare parts.
ICDB	Small producers including productive families, crafts	*Murabaha* and *Musharakah*	10% (annual average 1991-1993)	Oil mills, needlework, tailoring, soap-making, Grain mills and sweets.
NIDBG	Productive families, small enterprises and crafts	*Murabaha*	4.4% (1992)	Food products, tailoring, needle work, leatherwork, soap-making, building materials, engineering workshops, typing and other services
ABS	Productive families, small farming and other small enterprises	Murabaha, Musharakah and *Mudharabah*	1,9% - 6%	Animal raising and poultry, small flower nurseries, small-scale industries and productive families (foodstuff, soap making and tailoring)
SSDB	Small producers	*Musharaka* : 15.6% *Murabaha* : 60.8% Others: 23.6% (1995)	11.7% (1993) 18.8% (1994) 29.3% (up to August 1995)	Poultry, cows, sewing machines, oil production and other services activities

Source: Ibrahim (2003)

Table 3.3 Bank Islam Volume of Islamic Finance

Description	**2006**	**2007**	
Mudharabah (profit sharing)	21,316	18,150	⇩
Musharakah (profit and loss sharing)	50,000	50,000	⇔
Small medium industries	1,189,561	1,051,169	⇩
Murabaha (cost-plus)	1,422,832	1,248,975	⇩
Bai' Bithaman Ajil (deferred payment sale)	6,569,669	5,871,862	⇩
Ijara (operating lease)	104,372	157,855	⇧
Ijara Muntahia Bittamlik/AITAB (finance lease)	216,602	184,369	⇩

Source: Bank Islam Annual Reports, 2007

As regards to Pakistan, it saw its first Islamic bank open in the 1950s and formal *mudharabah* companies were established in the 1980s. However, *mudharabah* in Pakistan does not represent a finance vehicle--rather, it exists only to help the economy (Wilson 2005). The State Bank of Pakistan (SBP) has created an Islamic banking department to govern Islamic economics and banking activities in Pakistan,

which has also approved the setting up of a *Shariah* board at the bank. The Islamic banking department helps the SBP in finding solutions to problems facing Islamic banks and is responsible for tackling the issue of introducing Islamic banking operations as well as acting as a regulatory board. The department, with the co-operation of the Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) finalised the standards of some of the Islamic modes of finance such as *murabaha* and *ijara*, and drafted standards for *musharakah*. This is a result of the SBP's attempt at transforming the entire economy from an interest based to an interest free system. In 2001, the SBP decided to endorse the existence of Islamic banking alongside the conventional system; the underlying strategy been set and is followed by both types of bank.

Pakistan witnessed a rapid growth of SMEs in 2003, when 72 percent were registered. According to the SBP annual report in 2003, 2004, the SME sector was responsible for approximately 40 percent of the GDP and almost 30 percent of employment. The SBP recently began monitoring this sector to ensure that the cautious lending to SMEs is a priority activity for the commercial banks. As a result of the importance of the sector, 2002 saw the establishment of a SME bank in the public sector. This bank acts as a model for the SME banks in the private sector. The establishment of an SME Unit by the SBP for the purpose of hiring consultancy services to banks and providing training programmes to bankers for the implementation of SME finance lines occurred also. The outcome of an investigation conducted by the SBP showed that commercial banks are going to become the major providers of credit to the SME sector.

The merging of the Financial Deepening Challenge Fund (FDCF) and Pakistan's First Standard Investment Bank Limited (FSIBL) was a boon to SMEs. The project was the result of the merger of the financing of SMEs and happened in 2002, when 29 percent of funding was provided by the FDCF and 71 percent by the FSIBL. There existed also a project to lease equipment to small industrial and agricultural projects in six major cities. The target of this project is to finance 400 companies in the first three years.

Islamic banking in Saudi Arabia recently became well-known and now deals with transactions worldwide. This is mainly attributable to three reasons. Firstly, the

Kingdom has historically identified with Islam strongly. Secondly, the Kingdom has given support to existing Islamic banks and to the International Association of Islamic Banks. Thirdly, in Saudi Arabia there has been a rapid increase in the demand for banking products and services that comply with Islamic *Shariah* principles.

The Islamic Development Bank (IDB) is an international financial institution; its establishment followed from the Conference of Finance Ministers of Muslim Countries held in Jeddah in December 1973. The aim of the IDB is to accelerate the economic development and social progress of those countries that are members of the Muslim World League. All the products and services offered by the IDB accord with the principles of *Shariah*. Functionally, the bank participates in equity capital, grants and loans for productive projects. The bank also provides financial assistance to member countries for purposes of economic and social development. It is allowed to accept deposits and to utilise financial resources on the condition they are compatible with *Shariah* law. *Murabaha* and *ijara* are the core methods of financing used by the bank.

The Alrajihi Banking and Investment Corporation is one of the largest joint stock companies in the Kingdom, with a paid up capital of SR 2,250,000,000. The Alrajihi bank has the most branches with more than 500 spread all over the Kingdom, and the largest number of cash points with 910 machines nationwide. Out of the 51 banks in the Gulf Council Countries (GCC), the Alrajihi Bank ranks at the top for total profits, first for net returns on shareholders' equities and third for net returns on assets. According to Alrajihi's report for the 3rd quarter of 2008 the bank had attained a net profit of SR 5,100 million (US$ 1,360 million) by diversifying its investments. The total assets of the bank amounted to SR 163.2 billion. Moreover, the Aljazira Bank, after the recent reformation, now offers only Islamic banking products and services. It operates 16 branches spread throughout the major business areas of the Kingdom.

The Saudi Government has recently implemented a new commercial law that has increased the demand for investing in SMEs, particularly by young people who constitute the widest demographic of the Saudi population. Thus, the financial system of Saudi Arabia is under great pressure to fulfil the financing needs of SMEs.

Conventionally, it has been difficult to obtain external funding for SMEs. Hence, most SMEs in the country have been dependent on investors' own savings (Al-hajjar 1989).

Due to an understanding of the significance of SMEs and the demands of young Saudis, the Government is now taking several measures to fulfil the financing needs of SMEs. It is apparent that a great amount of effort has already been inputted into the establishment and smooth running of SMEs. Further analysis of the Saudi SMEs and financial sector, Islamic banking transactions and SMEs is provided in the following chapter.

3.7 CONCLUSION

It is clear that the relative absence of PLS in the financial market begs several questions and leads to an urgent need for more research and innovation. The current function of PLS as a mode of finance is inadequate in respect of its market role and from the point of view of Islamic banks; the feasibility of using this scheme is very low. The poor performance of PLS in Islamic banking and finance worldwide cannot be justified. As mentioned above, PLS should be a central component of Islamic banking as is demonstrated in the theoretical literature on Islamic finance, but the percentage of usage of PLS is only at a fifth of the total volume. The dependence of the Islamic financial industry on the mark-up method is due to the consideration of capital instead of the distribution of resources, which should be their main concern.

Mark-up contracts have witnessed significant developments, due to contributions by Islamic and conventional bankers as well as academic researchers. It ought to be highlighted that the use of mark-ups, especially *murabahah*, financing should be restricted to cases where *mudharabah* and *musharakah* are inappropriate. PLS would be best used by separate companies established by banks and supervised directly by the central bank or by institutes authorised by the central banks. The central banks should value these financial companies and approve their performance. There should be a comprehensive government strategy to encourage banks to become more involved in PLS activities. If this is accomplished, the benefits for society will then, in time, become apparent.

CHAPTER FOUR

AN INTRODUCTION TO SMALL AND MEDIUM SIZED ENTERPRISES AND TO SAUDI FINANCIAL SECTOR

4.1 INTRODUTION

Saudi Arabia is the largest economy in the Arab world. Despite its strength, unemployment has become an important issue in recent years. The country therefore has been in search of job creation strategies. An important part of such strategies is expanding the manufacturing base of the country, which can be achieved by SMEs.

The Saudi Government, therefore, has implemented a new commercial law that has increased the demand for investing in SMEs, particularly by young people who constitute the highest percentage of the Saudi population. Thus, the financial system of Saudi Arabia is under great pressure to fulfil the financing needs of SMEs. Conventionally, it has been difficult to obtain external funds for SMEs. Hence, most of the SMEs in the country have been dependent on investors' own savings (Al-hajjar 1989).

Understanding the significance of SMEs and the demands of young Saudis, the Government is now taking several measures to fulfil the financing needs of SMEs. For example, a series of conferences is being held throughout Saudi Arabia to initiate academic discussion and encourage funding for these ventures. A conference was held at Dammam on 20th January 2004, following which the Government assured young Saudis that there would be persistent support by both the Government and the private sector. Moreover, the Saudi Basic Industries Conference (SABIC) listed 147 products that may be used as potential business opportunities for SMEs. Similarly, the Government, through the Human Resource Development Fund, has expressed a keen interest in providing loans and financial assistance to those specialised training organisations that could train young Saudis in the specific skills required to be involved with SMEs. Hence, it appears that a great amount of effort has already been made towards the establishment and smooth running of SMEs.

This chapter focuses mainly on giving an overview of Saudi SMEs and the obstacles challenging them, by paying particular attention to the financial issues. The second part of the chapter presents an introduction to the Saudi financial sector with the objective of contextualising the financial issues related to SMEs discussed in the initial section. It should be stated that the development of SMEs in the Kingdom of Saudi Arabia is directly supported by Government efforts to enhance strategies for economic growth, job opportunities and importantly for diversifying the economy.

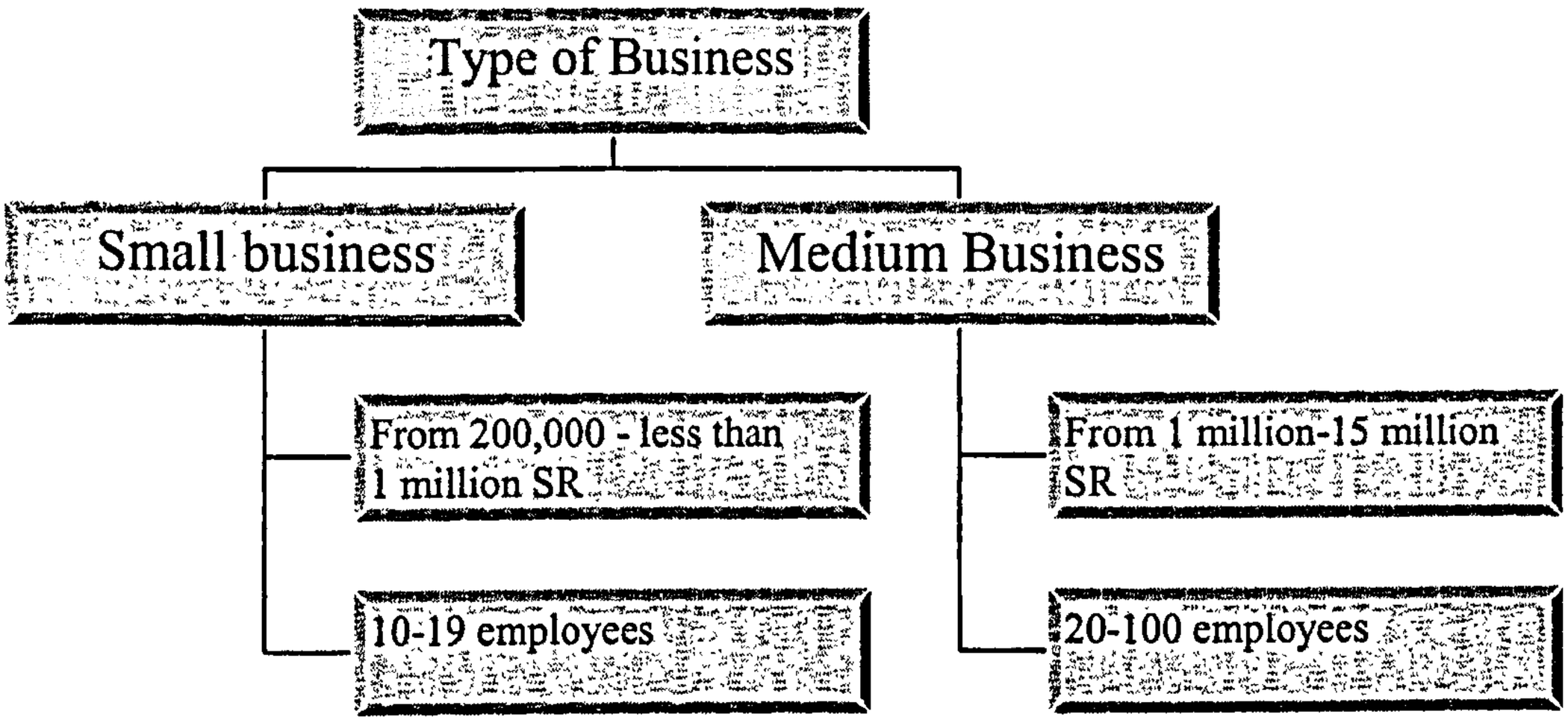
4.2 SMEs IN SAUDI ARABIA

As mentioned previously, development of SMEs in Saudi Arabia is of central importance to the economic development and diversification of the economy, due to the economic pressure related to unemployment and the Saudization that the country has been facing. This section therefore aims to discuss the Saudi SMEs and related issues in detail, before discussing the Saudi financial sector.

4.2.1 The Characteristics of Small and Medium-Sized Businesses in Saudi Arabia

In the Kingdom of Saudi Arabia, the definition of SME might be similar to those in other countries in the Gulf region where a business with 100 employees is considered large. Economists and writers identify Saudi Arabia as a large state-owned business that governs business activities and employs a large number of workers. Firms employing fewer than 10 employees and having investment capital less than SR 200,000 are classified as micro-enterprises. Conventionally, a high percentage of these businesses operate in the informal sector (Radwan and Al-Kibbi, 2001). Chart 4.1 shows the classification of SME according to the definition provided by the Council of Saudi Chambers of Commerce and Industry and this definition is in this study.

Chart 4.1 Classification of Saudi SME by Capital and Employees (Council of Saudi Chambers of Commerce and Industry)



The importance of SMEs in the Saudi economy is apparent from the increased emphasis of the five-year development plans. The results of this emphasis demonstrated a remarkable achievement in terms of participation of private sector and employment, which accounted for 74% of the non-oil Saudi GDP. Total Saudi employment accounts for 3.6 million in 2007, which amounts to 47% of total national employment (SAMA Annual Report, 2007).

Small business enterprises that have fewer than 20 employees constitute the majority of the private sector enterprises recorded in the commercial register, which absorbs about 75% of the foreign labour force. Having such large proportions of workers in these SMEs who are foreign indicates the lacklustre progress made in the field of Saudization, which has attempted to transfer jobs from expatriates to Saudi nationals. The sales of Saudi companies in the various domestic markets vary from one region to another. As a result, the Seventh Development Plan encourages the private sector to achieve more balanced growth among the various regions of the Kingdom. To minimise the movement of the population by way of urban migration, the Seventh Development Plan plans the establishment of new industrial cities in most of the Kingdom's regions. The gap between large and small firms in terms of profitability and Saudization rates are shown below in Table 4.1.

Table 4.1 Comparison of Major Economic Indicators of Large and Small Companies

Economic Indicator	Large Companies	Small Companies
Sales per employee (SR thousand)	486.0	158.0
Rate of Gross Return on Sales %	14.2	4.4
Rate of Return on Assets %	18.7	5.4

Source: Saudi Ministry of Planning

4.2.2 Significance of Saudi SMEs

According to the working paper compiled by the Council of Saudi Chambers in July 2005, the Saudi SMEs which form more than 80% of private businesses in Saudi Arabian market have the following indicators:

The number of SMEs licensed by the Saudi Ministry of Commerce by the mid-2001 was about 503.000[1], 94.8% of which were sole ownership businesses. About 1,105 medium-sized factories in the Kingdom had capital of between one million to five million Saudi riyals and employed approximately 33,492 people, which represents about 71% of the total industries in Saudi Arabia. The number of shops licensed by Saudi Ministry of Municipal and Rural Affairs in 2000 was about 153,017, representing 74% of the total number of licensed shops nationally. Of this total, foodstuffs constitute 34%, 12% relate to personal services and other kind of activities account for 22%.

In 2000 the number of SMEs established in the Kingdom was 24,853 out of the total number of 29,569 enterprises registered in the social insurance system, meaning that small businesses (employing 1 to 19 workers) represent about 84.1% of all businesses operating in the Kingdom. The number of medium-size enterprises (employing 20 to 59 employees) are about 1,752, representing 5.9% of the total operating businesses in the Kingdom, thus SME represent 90% of the total commercial establishments in the Kingdom.

---

[1] Speech by the Saudi Minister of Commerce at the opening of the Sixth Conference of Saudi businessmen, in the city of Taif in 2001.

As a matter of fact, despite all these developments, the SMEs still play a marginal role and are ineffective in achieving economic and social development. For example, analysis data on the performance rates for small-scale industries in the Kingdom show such limited performance as small industries contribute only 14% of the value of production, utilise 35% of the energy consumed by industry and contribute 8% of the value of exports of industrial goods, which indicates the inefficient use of economic resources[2].

4.2.3 Obstacles Faced by SMEs

The obstacles faced by SMEs in Saudi Arabia can be divided into two main categories. Firstly, these are the structural imbalances afflicting the work of many small and medium businesses, and secondly, the absence of an independent institutional body that performs regulatory and supervisory functions for the benefit of the SMEs. The absence of the independent body results in weaknesses for supporting these businesses.

Most young investors, especially in their new environment of finance and business, lack the fundamentals skills of the businessman. In other words, they lack the characteristics required of entrepreneurs, particularly with regard to the ability to choose the appropriate project, the efficient elements of production, scientific management of the project at all levels and developing the business according to market requirements. These deficiencies resulted in negative outcomes, as explained below:

4.2.3.1 Lack of feasibility study or low quality of the feasibility studies of projects

Economic feasibility studies are necessary for the construction (or expansion) of a project. Their production is seen as the main means of estimating volumes of input and output, the foundations of management, production and marketing, cash flows and the size of inflows and outflows, and the profit margin expected throughout the

---

[2] Working paper on small and medium enterprises between reality and the future, by the Council of Saudi Chambers of Commerce and Industry 2002.

life of the project. Banks as capital providers require professionally prepared feasibility studies to foresee the probabilities of default, losses given default and expected losses at default (Fraser, 2005; Malik and Waraich July 2006a).

Many of the owners of SMEs neglect the preparation of these studies, or are preparing unrealistic studies just to obtain permits or loans without actually integrating these studies, which inevitably leads to the establishments of unrealistic projects. This lack of experience throughout the period leads to negative practices such as unfair pricing and low quality specifications, which affect the quality of the businesses in the market.

4.2.3.2 The administrative and managerial imbalances

Centralised daily decision-making: SMEs imply flexibility for the owner. This led many SMEs to encounter severe disadvantages and deterioration of performance. To some extent, this centralisation power lies in the hands of the director-owners, not necessarily qualified to run and supervise all the daily affairs of the business, especially if he/she combines this business with a full time government or private job.

Lack of the basic control and performance evaluation: Most SMEs in the Kingdom lack basic financial control, inventory control, periodic inventories and, most importantly, the separation of authority. The absence of defined organisational structures between the work and workers lead to a lack of rules and regulations of activity in many SMEs in the Kingdom. Thus, there are always grey areas in the job descriptions for each position and the responsibilities and authority of the post (Radwan, 2004). Some owners conflate the disposal of personal and financial activities within the project, which leads to many problems, especially if the project is owned by more than one individual. Consequently, this results in disorder in the workplace, loss of skills and deterioration of performance.

Marketing problems: Small enterprises suffer from a series of problems in marketing, including competing with foreign products which enjoy major advantages (such as confidence in long-established products) and low-tariff barriers. This makes competition difficult for domestic, especially small and medium enterprises. Most

SMEs do not allocate funds for marketing research and their low awareness of marketing means that some do not differentiate between marketing and sales. Transportation, packaging and advertising and sales costs are relatively high compared to the size of these projects.

Geographic accumulation of SMEs in one district alongside others within the same industry negatively intensify the competitive practices amongst them and result in some being unable to match the competition and thus leaving the market (Sheplag 2003).

Problems of technology transformation: SMEs face difficulties in taking advantage of multiple technical developments related to their activities, as many of these businesses lack vital data and information, particularly with regard to a comparison between specifications and prices, as well as knowledge of how to properly negotiate for better contractual terms. Improving access to technological networks of an international standard would be very expensive and is not affordable for many SMEs (Looney 2004).

Less attention to the development of skills of human resources: Most SMEs do not invest in human resources for the development of technical and administrative skills, which is attributed mainly to the low awareness of the importance of this development for the continued competitiveness of their firm, which in turn is due to the low awareness of market fundamentals and marketing.

4.2.3.3 The absence of an independent institutional framework for SMEs

The absence of a regulatory framework or institutional entity within the framework of which SMEs could be operating, as represented by legislation, is another issue. Independent institutions for furtherance of SMEs' interests, as well as the absence of formal definitions in classifying or determining the identities of those businesses, result in the loss of many essential ingredients for the development of SMEs. Those ingredients are mainly as follows:

Incentives for investment: The investment incentives currently available in the Kingdom such as customs exemptions, free or nominal prices for land and low-cost

loans, material and technical support provided by government agencies are subject to conditions which most of the SMEs cannot fulfil. Nevertheless, if certain SMEs can fulfil them, some, especially small businesses, are often not aware of the existence of these opportunities and do not know how to obtain them. The role of government policy is not to provide subsidies or directed credits to SMEs; rather it is to create conditions that will lower the costs of SME lending to financial institutions and increase their achievements in providing better services to SMEs.

SMEs are usually more credit-constrained than larger firms. According to the World Development Report 2005, large firms rake up as much as 44% of their financing needs through external sources whereas small firms obtain only manage 19%. This is mostly due to three reasons: high unit transactions costs associated with SME lending because of the relatively small loan sizes; higher costs of collecting and analyzing information concerning SME; and lastly, the weak or underdeveloped financial markets (United Nations 2001, Storey 1994).

Funding channels: The available funding opportunities from commercial banks are not necessarily commensurate with the needs of most small and medium businesses. These funding related issues will be discussed in detail, later in this chapter (Malik and Waraich 2006b).

Technical Support: The scarcity of SME technical support, particularly in the area of business incubators, which produce the skills and work to the advantage of both the owners of these businesses and their employees, as well as improving the level of production, to match domestic and international standards.

4.2.3.4 Database, information and scientific research

Generally, databases in developing countries are deficient and non-standardisation of concepts and standards, which are estimated on the basis of economic variables, particularly with the absence of a central body concerned with collecting such data and preparing a database that serves the interests of these SMEs. Despite the efforts of many institutions and government entities and academic research in the field of SMEs, there are still many deficiencies. This is negatively reflected by the inadequate

information and research on the work of SME in many areas including lack of ability for accurate evaluation of the qualities and prices of production factors (such as machinery, raw materials, labour etc) forcing involvement with poorer quality and higher cost, resulting in a case of adverse selection. Also, the absence of access to required information about competitors in the areas of market prices and production specifications etc., results in SMEs losing important tools in assessing performance and identifying the level of productive efficiency of the business market, compared to their counterparts (Radwan 2004).

4.2.4 Source of Debt Funding for SMEs in Saudi Arabia

Access to finance for SMEs is considered to be a major obstacle to improving growth and competition. The contribution of SMEs to the Saudi national economy represents over 80% of existing companies in the private sector and it is expected to play a fundamental role in the development of industrial markets and economic growth (Council of Saudi Chambers, working paper 2005). Regarding the financing of SMEs, the conclusion of the Al-Hajjar 1989 study shows that 68% of the SMEs in the Kingdom depend on entrepreneurs' own savings and 17% seek funds for their product from informal sources. Only 3% of entrepreneurs obtained funds from Saudi specialised funds and 5% received funds from commercial banks. In the case of Saudi SMEs, these face difficulties in meeting the conditions set by banks and other types of credit providers. Entrepreneurs in Saudi Arabia are not satisfied with the existing financial institutions and find loan procedures very complicated and confusing (Looney 2004).

However, from the banks and financial institutions point of view, "the banks" face a lack of reliable information and appropriate instruments of management of borrowers from SMEs. Whereas the Saudi banks have ample liquidity, three times greater than the international standard, they have no clear strategy or desire in supporting SMEs. It should be noted that a few commercial banks initiated middle-market programmes in order to provide loans for medium-large enterprises ranging from SAR5 to 50 millions. From November 2000 until January 2001 the Saudi American Bank was able to add more than 100 new customers from the middle-market sector. Riyadh Bank went further and targeted smaller investors and offered loans starting from SAR

1 to 5 millions to those they defined as small businesses. Only Bank Al-Bilad has committed to finance SMEs in the Kingdom, as Dr Mohammed Al-Awad, Al-Bilad deputy marketing manager (2005) says the funding of SMEs is the first priority of the bank and comes at the top of the bank's strategy under the *Shariah* law and supervision.

The Saudi government has established specialised banks to help the development of SMEs. The Saudi Credit Bank (SCB) is a state-owned bank providing a social micro loan to individuals in the format of a SME lending programme. An attempt was made by the government to improve the bank so as to be able to provide loans to SMEs up to SR 200,000. According to Radwan and Al-Kibbi (2001), the SCB repayment rate was over 98%. The bank either augments resources or amends its articles of association to allow it to raise funds and loans on a commercial rather than interest free basis.

The Saudi Arabian Agricultural Bank (SAAB) specialised in providing finance for a variety of agricultural activities in all regions of the Kingdom. SAAB provides loans and credit facilities needed to help cultivating, storing and marketing agricultural produce and forest products as well as promoting livestock rearing, poultry breeding, and fish farming, reclaiming land, providing water supply facilities required for the purposes mentioned above. SAAB loans are concentrated in two categories: Ordinary Farming Loans for Small investors and those loans are in two period types: (i) short-term and to be paid back within a maximum of one year, and (ii) medium-term loans are to be repaid within a maximum of ten years; and secondly Specialised Agricultural Projects, for large-scale commercial projects.

The other government owned financial institution providing funding to SMEs is the Saudi Industrial Development Bank (SIDB), which has extended practically interest-free loans for up to 50 % of the cost of projects that are considered financially viable. The SIDB established a programme to overcome the gap between commercial banks and SMEs minimizing credit risk. The capital of this programme is SAR 200 million, half of it was provided by the Saudi Ministry of Finance and the other half was raised by ten commercial local banks. The principal function of the programme is to provide guarantees to financial institutions in order to minimize the risk inherited in lending to

SMEs. According to SIDF, "the programme will guarantee 75% of the loan amount in exchange for collaterals including mortgage on the fixed assets of the enterprise in favour of the lending institution. These collaterals are held in the position of the fund until the loan is fully repaid after which they are released to the enterprise"[3]. Briefly, the procedure for this programme is as follows: the entrepreneurs submit a request for funds to commercial banks, in case of insufficient guarantees from entrepreneurs, the loan guarantee programme is requested as additional security. The bank submits the loan guarantee programme to assure funding. After receiving the guarantee, the bank extends the funding to the enterprise concerned.

The gap between the products offered by Saudi banks and other financial institutions and the customers should also be considered in relation to SMEs funding. The conditions for funding set by Saudi banks and other financial institutions for SMEs in the Kingdom are not compatible with the nature of the SMEs' needs. Most SMEs have currents accounts with a bank, and the loan is only used for financing daily needs of the companies' activities, unanticipated costs and accumulated loans. 71 % of the sample do not use other banks' products. 61 % shows that they use deferred sales to finance their need of liquidity (survey conducted by the Saudi Chamber of Commerce, 2004), Table 4.2 provides further details.

Table 4.2 The Use of SME For Banks' Products

1- Do you deal with commercial banks?	**Percent**
Yes	98
No	2
2- What king of banks' products do you use?	Percent
Current account	92
Loans and overdraft	26
Financial guarantee and CL	45
3- Why do you request loans from banks?	Percent
Financing daily activities	41
Unanticipated actions and accumulated loans	22
Enlargement of production capacity	37
4- Do you deal with specialized banks?	Percent
Yes	29
No	71
5- Do you use deferred sale to finance your business needs?	Percent
Yes	61
No	39

Source: Saudi Chamber of Commerce (2004)

[3] http://www.sidf.gov.sa/English/SIDF-estab/SMEs.doc_cvt.htm

4.2.4.1 The centennial fund (charity fund)

The Centennial Fund (TCF) is a Saudi Arabian charitable fund established in July 2004 with a royal charter to help young Saudi men and women achieve financial independence by helping them to start their own successful businesses. The Fund provides partial or total financing in the form of loans to entrepreneurs and the values of loans range between SR 50,000 - 200,000. The prerequisite for financing the project is to work with mentors all over the Kingdom, and perhaps the most important distinction of TCF from other funds or similar programmes is to provide extension services to the project lasting for three years from its commencement. The owner of the projects receives the facilities and services necessary for the establishment of any project through comprehensive service centre in various regions of the Kingdom. Entrepreneurs receive a variety of support such as managerial, technical and other support. Each entrepreneur opens a bank account and follows closely the activities of the project so that TCF will be able to know the shortcomings and failures as soon as possible by comparing sales expenses, and train entrepreneurs to supervise daily activities.

TCF also provides insurance as well as the accounting and financial services to all project owners according to their needs. It further provides discounts and credit to enterprises through the support received from several organisations providing goods and discounts at variable rates or for free. The Fund also established an Innovators Fund, which received support from SABIC of SAR80 million, and the National commercial Bank of SAR70 million riyals. This aims to support a certain category of high-level projects, notably the petrochemical industries and mining, under the direction and supervision of the Centennial Fund.

Abdul Latif Jameel Community Services Programmes is another important SME financing initiative, established in 2003, with the aim of serving the community by targeting the development of young Saudi men and women, who have serious ambitions to establish small businesses but lack sources necessary to begin. Abdul Latif Jameel Community Services Programmes is a private charity organisation belonging to the Al-Jameel family. The programme also provides administrative support in running these projects. The programme provides support for projects up to

SAR 100,000; namely micro businesses. The programme also assists in the selection of operating efficiencies in projects (according to accepted tests and administrative standards) as well as following up and supervising the performance of employees leading the projects during the first year of the project.

Eventually, Bab Rizq Jameelis one of Abdul Latif Jameel programs to serve the community and seek through its diverse activities to provide employment opportunities for young men and women in the Kingdom, a place through which support small-scale entrepreneurs and provide a distinct commercial sites. Bab Rizq Jameelis where the job-seeker with the company seeking can meets to achieve Group jobs distinctive contribution in supporting the SMEs economy and for the Saudi society.

4.2.5 Restriction on Raising Equity Finance for SMEs in Saudi Arabia

To understand the importance of SMEs in contributing to the economy and creating job opportunities, population growth should be considered. The Saudi population grows rapidly by about 3.1% per year, with the population expected to reach 38.5 million in 2023, 70% of which will be under the age 30 years. Consequently, since this would place pressure on the existing infrastructure, the government must take serious actions to mitigate this pressure. This creates additional burdens on public finances, as the Saudi economy remains a very state-led one, despite economic and financial liberalisation policies of the recent years.

4.2.5.1 Private equity

The Saudi capital market is still young and only useable for buying and selling shares of listed companies for speculators in the market. Economists and other professional observers of the market are not expecting it to be a source of funds for SMEs in the near future. Hence, the Saudi capital market lacks diversification and transparency. For instance, bond issues are not available as a source of corporate financing. Small investors in the capital market have no protection and are affected by rumours spread by large speculators and companies.

Saudi private equity has significant financial resources abroad. The government needs to diversify the capital market and attract those investors and repatriate the investment. In developed countries and even in some developing countries, SMEs have benefited from the local capital market. According to Radwan and Al-Kibbi (2001) the Saudi stock market capitalisation is at about 40% of GDP, which is low by international standards. Also, only about 75 large companies are listed on the market, which shows how limited it is. When a huge amount of capital is pumped into such a narrow market, it could inflate the price of shares and lead to instability in the market.

A survey conducted by Albalkhail (1999), found 12 to 15 firms investing in equity capital. These investors are heavily involved in service ventures. Unfortunately, these invested companies do not support entrepreneurs of SMEs who are about to start or are already operating businesses.

4.2.5.2 Equity capital: venture capital industry

Equity capital is a mode of financing, as money is raised by a business in exchange for a share of ownership in the venture. Equity capital appears in two forms for either new or emerging businesses: as angel investors and venture capital firms. Hence, angels and venture capital are active forms of financing. Investors using this method of finance are seeking to add value other than capital to the companies, by providing comprehensive skills to the companies in order for them to grow and achieve a greater return on their investment. Adding value to the targeted firms requires active participation and almost all venture capitalists desire to have a seat on the board of directors (Ahmed 2005).

According to Al-Nasser, there are two types of venture capital investments that should be implemented in the Kingdom. Firstly, investing in ideas and innovations (planning to start a business), by means of entry in a company with the investment idea or the innovation so as to fund this invention, subject to an economic feasibility study and then registering the idea so that it may reach the production stage. Secondly, the search is for operating SMEs, which have distinct products or which provide a distinctive service with a potential for future investment, and the need for funding for

expansion in activity or to develop service institutions. Venture capital pumps in money by buying a share in the SME (Asharqalawsat, 3 April 2007).

The success of venture capital is a part of the integrated system; hence, in the case of Saudi Arabia there is no active government fund to support venture capital. The application of venture capital leads to two dimensions, economic and technical, after the pioneering work of any founder, who might see good returns from a viable economic entity, deserving support of venture capital. This introduces the importance of legislation and state policies. Alsari[4] mentioned that several companies in Malaysia apply venture capital investment, all in the private sector. However, he discovered that most of the capital comes from the State, flowing to them through state institutions because they are aware of the importance of developing the venture capital industry (Aleqtisadiah, 27 Feb 2007).

4.2.5.3 Government involvement

In this time of government economic encouragement, there is a need for specific mechanisms to assist owners of initiatives which are promising, practically and commercially. As noted, these initiatives working seeking venture capital need productive ground and accurate quantity and quality channels of financing. University students or young people who have ideas can be transformed into investments and then into companies. Therefore entrepreneurs and capital providers desire to have government involvement, as Saudi financial companies and banks are still far from meeting social obligations. According to Al-Moudjahid, they should take part in community commitments, every bank and financial company established in the Kingdom should apportion part of its profits to social services, and hence the state must put emphasis on community-based corporate activities (Aleqtisadiah, 27 Feb 2007).

[4] A conference organised by Aleqtisadiah newspaper entertains a selection of experts' investor and businessmen to shed light on the Venture Capital industry in Saudi Arabia.

4.2.5.4 Cultural background

The culture of the community is one of the main restrictions on raising funds for SMEs and can be summed up in two terms: education and treatment. Education is a learning environment which stimulates our thinking and creativity in all fields, which needs to be reviewed by way of supporting inventors and innovators. The education policy in the kingdom does not train creative people who have entrepreneurs' characters. The development of education is not sufficient to meet the needs of society, especially as it is a society where the youth makes up more than 50% of the Saudi population, a very large proportion of the social group in the area of thought and creativity. In a meeting of investment experts and businessmen, Al-Omer[5] stated that education is an essential part in the removal of obstacles in venture capital investment. Prevailing societal culture encourages everyone, including the innovators, to get a governmental job, due to the inherent stability (Aleqtisadiah, 13 March 2007).

4.3 SAUDI FINANCIAL SECTOR

After discussing the financial obstacles facing SMEs and the financial opportunities available to them, it is also useful to discuss the Saudi Financial Sector so that the SMEs related financial issues can be better contextualised and understood. Therefore, this section provides an introduction to the Saudi financial sector.

4.3.1 An Introduction to Saudi Financial Sector

The Government of Saudi Arabia, which is still a developing economy, has made training, development and the utilisation of human resources a high priority. Saudi banks have invested greatly in the training of Saudis by instituting their own training programmes, and also by benefiting from the Institute of Banking in Riyadh run by the Saudi Arabian Monetary Agency (SAMA). SAMA authorisation as the banking

---

[5] A second conference organised by Aleqtisadiah newspaper entertains a selection of experts' investor and businessmen to shed light on the Venture Capital industry in Saudi Arabia.

regulator and supervisor enables it to sustain financial solidity via prudent application of the Banking Control Law and its own regulations. Moreover, SAMA implements financial values and codes set by international organisations for improving market practices.

The performance of the Saudi banking system has continued to improve over the years, with proactive monitoring and guidance from SAMA. Saudi banks achieved excellent profits, such as the average return on assets and average return on equity. They have not been affected by the turbulence in global markets. The banks also have made average capital adequacy rate of more than 21% compared to the standard Basel II capital adequacy, which is more than formal international standard of 8%. All Saudi banks are on target to implement all 3 Pillars of the Basle II Capital Adequacy by January 2008, using the standardised approach (speech by the governor of SAMA, 2007).

Saudi banks have invested in government securities, thereby contributing to the Government development efforts. These investments rose from 6 per cent of their total assets in 1990 to 25 per cent at the end of the second quarter of 2002. The expansion of the banking system allows foreign banks to open branches in the Kingdom. Ten licenses have been issued so far for that purpose to 5 GCC banks and to 5 banks from other countries. All of the above opened branches in the Kingdom or are on the verge of doing so in the near future. The Council of Ministers gave approval in March 2006 to establish a Saudi joint stock company under the name "Alinm'a Bank" with a capital of 15 billion Saudi riyals to carry out normal banking business and investment. This bank becomes operational in late 2007.

Corresponding to the general trends in the Muslim world and to domestic desires, there is an increasing demand in Saudi Arabia for banking products and services that are in accordance with Islamic *Shariah* principles. This has been recognised by the Saudi authorities, which have encouraged Saudi banks to offer interest-free banking products and services. There are no restrictions imposed on Saudi banks when choosing a viable organisational model for delivering such activities. This diversity on the part of banks enables them to offer all their products and services to customers on an Islamic basis, through selected branches, units and departments, or through

investment and mutual funds. Currently, all banks in Saudi Arabia offer Islamic banking services, and the number of products in this field has grown rapidly.

In terms of the Saudi Islamic bank, the name does not formally exist in the country even though there is no independent supervision regarding this matter. However, the instruments of Islamic banking receive much respected attention from *Shariah* scholars and economic researchers. Fixed return based instruments such as *Ijara*, *Ijara wa iqtina* and *murabaha* have been adopted by all of the financial institutions in Saudi and became significant modes of finance. Other Islamic modes of finance are practiced but are not used by the majority of people. SAMA has recognised the uniqueness of Islamic banking activities. However, the supervision and regulation that SAMA exercises are consistent with those of conventional banks. As a result, capital adequacy, liquidity and other supervisory requirements are relevant to Islamic banking activities. SAMA also practices both on-site and off-site supervision and requires banks to state these activities through special prudential returns. It is significant that all the banks offering these products apply strong corporate governance standards and the risks related to Islamic banking are recognised, reported and conducted by the banks.

The financial infrastructure and sound regulatory processes in the Kingdom of Saudi Arabia are based on financial standards and payment systems similar to those practised in the major developed countries. The Kingdom has become an attractive destination for foreign investment because of the reliability of the financial infrastructure as well as the size of the Saudi market. The Kingdom's stock market in terms of market capitalisation is the second largest market in the Islamic world and the largest in the Middle East (Wilson, 2005).

The financial system in Saudi Arabia consists of four sectors: the central bank, the specialised credit institutions, the commercial bank and the stock market. The Banking Control Law, issued by Royal Decree in 1966, regulates banks and their activities. The Council of Ministers issues licenses for the foundation of banks, based on recommendations from the Minister of Finance and National Economy, after they have been reviewed by the central bank.

4.3.2 Saudi Arabia Monetary Agency (SAMA): The Central Bank

At the head of Saudi Arabia's financial system is the SAMA, the central bank, which was established in 1952. The Kingdom did not have a monetary system solely of its own before SAMA was established, and therefore, Saudi silver coins and foreign currencies circulated in the Kingdom as the medium of exchange. As a central bank, SAMA has played a central role in the development and consolidation of the Saudi economy, by (1) evolving a monetary system for the country based exclusively on the national currency; (2) by promoting growth and ensuring the soundness of the financial system; and (3) by striving toward the promotion and maintenance of domestic price and exchange rate stability. In addition, it acts as a banker to the Government and manages the country's foreign exchange reserves,

4.3.2.1 The functions and responsibilities of SAMA

SAMA has a multiplicity of roles as the central bank and the banking and shares market supervisor, and acts as an Ombudsman of the financial markets as well as promotes co-operation among market participants (Al-Sayari, 2000). Its functions are as defined by its charter issued in 1952 and amended in 1957, which centres on the following:

- Issuing and supporting the Saudi currency (Riyal) as well as stabilising its internal and external prices. Since 1986, the Saudi Riyal has been efficiently pegged to the American Dollar at SR 3.75 per one U.S. Dollar. The Kingdom's large oil revenue and instruments for closely monitoring the monetary policy have succeeded surprisingly well in maintaining the stability of the Riyal's exchange rate and domestic prices over the years. SAMA's strategy is to use a range of monetary instruments, which consist of traditional and modern instruments, to achieve the goal of its monetary policy. These instruments include the statutory reserve requirement on bank deposits, liquidity ratios, deposit limits, and prudent restrictions on advances and loans, Repo facilities on government development bonds, treasury bills, floating rate notes and foreign exchange swap transactions. This chapter provides details of some of these instruments.

- Dealing with banking associations of the Government, and regulating the commercial banks. SAMA has played a significant role in developing the commercial banks, expanding and reorganising the scope of their banking operations and services. At present, there are 11 banks actively operating in the Kingdom, including the Gulf International Bank, which has established a branch in the Kingdom recently. In order to give the banking system a national character and to strengthen its capital base, SAMA implemented, during the period 1976-1982, a programme to nationalise foreign banks. The methodology was to require foreign banks to convert themselves into joint-venture entities with major Saudi share holdings.

In terms of assets and capital adequacy, Saudi banks stand amongst the largest banks in the Middle East. They have reached this position by adopting the practices of SAMA in areas such as credit risk management, methods of calculating loan and liquidity ratios, defining the powers and responsibilities of the members of their boards and adopting accounting standards, as well as other sound practices (Speech delivered by Hamad Al-Sayari Governor of SAMA, 2003).

4.3.2.2 The conduct of monetary policy

The efficient monetary policy adopted by SAMA has contributed significantly to the growth of the Saudi economy by providing a sound environment for monetary and financial stability, which has promoted and maintained both domestic prices and exchange rate stability. SAMA has consistently conducted its monetary policy in co-ordination with the national fiscal policy. It has taken measured steps, by promoting domestic price stability, to ensure that the growth in domestic liquidity is broadly consistent with the growth in the availability of goods and services in the economy. In order to maintain exchange rate stability, SAMA closely monitors the Saudi Riyal market to ensure its smooth functioning and takes corrective measures if there are any troubling activities.

4.3.2.3 Management of reserve assets

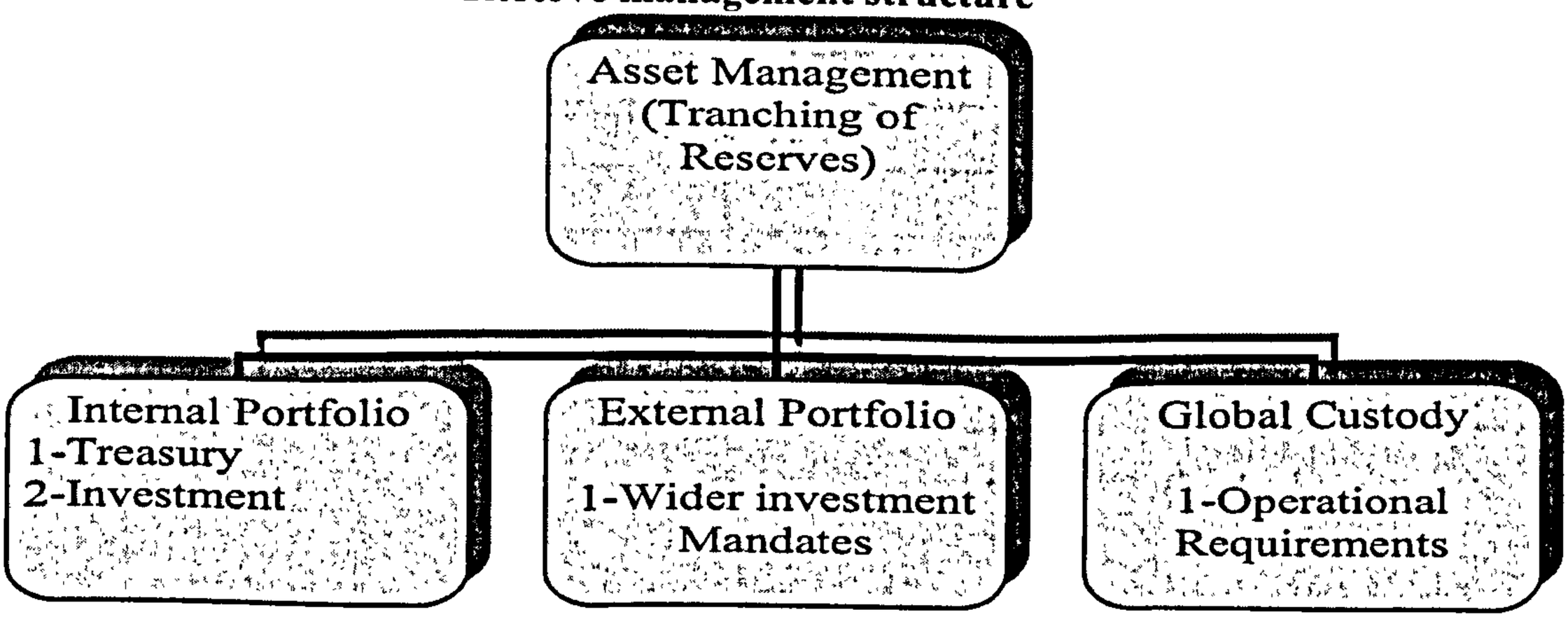
The central bank has changed its practice of reserve management significantly over the last decade. It was previously characterised by passive short-term investment strategies to preserve principal value and maintain maximum liquidity (Al-Sayari, 2000). SAMA employs trenching as a means of managing the diversification of assets to improve the return on its reserve portfolio. Regular meetings between SAMA and banks of different levels are arranged to discuss broader issues, such as trends in the industry, system liquidity, market practices and ethics, development of capital markets and regulatory matters.

SAMA's practices of reserve management date back to the early 1970s. Because of SAMA's dual functions as a central bank and an asset manager, emphasis is placed on liquidity as well as on returns. Once liquidity and secondary liquidity have been generated, the remaining assets are invested in bonds and equity. The investment objectives of SAMA emphasise safety and risk-adjusted return as well as liquidity. The method of diversification used by SAMA has the potential to improve returns comparative to liquidity in portfolios maintained for this purpose. To evaluate managed portfolios internally and externally, there was an emphasis on return which gives rise to portfolio benchmarking, as shown by Chart 4.1.

Chart 4.2

Saudi Arabian Monetary Agency (Saudi Central Bank)

Reserve management structure



4.3.3 Specialised Fund

In addition to commercial banks, there are several specialised domestic credit institutions which distribute loans and advances to Saudi individuals and companies. The rationale behind establishing specialised credit institutions is the need to cater for the financing requirements of various economic sectors. These institutions, which represent an important sector of the Saudi financial system, include the Saudi Industrial Development Fund, the Saudi Arabian Agricultural Bank, the Real Estate Development Fund, the Public Investment Fund and the Saudi Credit Bank. SAMA played a central role in the founding of these institutions in the early 1970s (with the exception of the Saudi Arabian Agricultural Bank, which was founded in early 1960s). Having the aim of diversifying the economy, these institutions provide long-term loans to fundamentally important sectors such as industry, agriculture and real estate. The specialised credit institutions have participated noticeably in the development of related economic sectors. The table below shows the total disbursements by these institutions in the period 1995- 2004, indicating their effectiveness.

Table 4.3 The Specialised Credit Institutions (Credit Disbursements) (Million Riyals)

Year	Saudi agriculture bank	Saudi Credit bank	Public Investment Fund	Saudi Indus.Dev Fund	Real Estate. Dev	Total
1995	363	296	118	2,006	3,732	6,514
1996	262	315	300	2,002	2,401	5.28
1997	430	337	542	2,012	2,228	5,549
1998	605	353	930	1,922	1,633	5,442
1999	691	304	1,185	1,246	2,265	5,691
2000	790	321	1,078	1,083	1,881	5,153
2001	1,104	318	1,759	965	2,232	6,378
2002	1,320	348	5,364	1,220	2,264	10,516
2003	665	512	1,352	1,312	2,261	6,102
2004	642	452	841	1,764	1,773	5,472

Source: Specialized Credit Institutions

4.3.3.1 Industry policies and lending criteria

As the effect of the new foreign investment law for encouraging foreign investment, the Saudi Industrial Development Fund (SIDF) will also be able to provide loans to projects entirely owned by foreigners.

According to the Saudi Industrial Development Fund, the following are its policies and lending criteria:

- Any registered Saudi or foreign company or establishment with an industrial license to engage in manufacturing within the Kingdom is eligible to apply for a loan.

- Projects must be feasible from a marketing, technical and financial point of view. The maximum term for a loan is 15 years with a repayment timetable designed to match projected cash flow.

- The institution finances up to 50 per cent of the fixed assets as mentioned early in this chapter, pre-operating expenses and start-up working capital, but this does not include financing the purchase of used machinery or equipment.

- The owner's equity should represent a minimum of 25 percent of the project's cost. The institute takes out a mortgage on the financed fixed assets. Personal guarantees are required as security from the shareholders of limited liability companies.

- The processing time of a loan depends on the completeness of information provided by the loan applicant. Payment of the approved loan is staged in accordance with the progress and actual expenditure in the financed project, backed by the appropriate supporting documents.

4.3.4 Commercial Banks

The banking industry in the Kingdom consistently remains the strongest sector of the economy. 14 licenses have been issued to commercial banks in Saudi Arabia, divided into the following three categories:

1- Saudi banks, comprising Al-Rajhi Banking and Investment Corporation, the Arab National Bank, Aljazira Bank, the Banque Saudi Fransi, the National Commercial Bank (NCB), the Riyadh Bank, the Saudi American Bank (SAMBA), the Saudi British Bank (SBB), the Saudi Hollandi Bank, the Saudi Investment Bank and, recently, Bank Al-Bilad.
2- Foreign banks both licensed and operating, comprising the Gulf International Bank and the Emirates Bank International.
3- Foreign banks licensed but not yet operating, comprising the National Bank of Kuwait, the National Bank of Bahrain, the Bank of Muscat, Oman, BNP Paribas, the Deutsche Bank HSBC, JP Morgan Chase & Co. (U.S.-Saudi Arabian Business Council, 2004). The HSBC is still operating in the Kingdom through the SBB as a city bank operates in the Kingdom through SAMBA.

A statistical survey conducted by SAMA, carried out in August 2003, shows that the banking structure in Saudi Arabia is based on branch banking, with more than 1,201 commercial bank branches in the Kingdom. According to the survey, the last decade has seen considerable growth in domestic banking business in terms of products and services, capitalisation and earnings, and technological sophistication.

Additionally, in line with their diversification strategy, most of the commercial banks in Saudi Arabia have recently started to provide financing instruments compatible with the Islamic banking guidelines. The NCB has promised that by the end of 2006 all branches will be offering Islamic products and services. The only exclusive Islamic bank in the Kingdom is Al-Rajhi Banking and Investment Corporation, prior to the establishment of Bank Al-Bilad.

Saudi banks have been criticised for being risk averse and reluctant to become involved in financing major products. "Efficiency of banking operations is best served when bankers have the freedom to make funding decisions based on an appraisal of the risks involved and the anticipated returns" (Wilson, 2005). In the past, countries like Saudi Arabia did not have such freedoms as they faced a lack of technical information advantages, and for political reasons, there were insufficient levels of banking security in terms of securitisation. In order to satisfy the requirements of their clients, banks in the Kingdom have taken steps to diversify their portfolios and increase their financial tools, i.e. they have introduced simultaneous Islamic and conventional banking methods. However, a high percentage of the banks' portfolios concentrate on consumer rather than productive items. The result is a rise in household debt, although this might yield some advantages, such as reducing the percentage of unemployment, which was officially registered at 14 percent in 2004. (Saudi Arabia, 2004)

It was recognised by Wilson (2004) that Saudi banks rely heavily on retail banking activities. These account for more than half of the banks' total profits, and in the case of Al-Rajhi, almost all of its profit. A high percentage of the deposits are by way of current accounts, which give no return. This is because the resort to interest is still seen by Saudi people as a non-negotiable religious prohibition. Borrowing by individuals or companies on an interest basis is only acceptable where there is no other option. This clarifies the issue of the profitability of banks in Saudi Arabia where no return on deposits is preferred to interest in an uncompetitive environment.

4.3.5 The Stock Market

Historically, the only alternative available for foreigners wanting to invest in the Saudi stock market was a single closed-end mutual fund, the Saudi Arabia Investment Fund (SAIF), which was traded in London. Because the SAIF was a "closed-end" fund, the foreign money invested in the Saudi market was limited to US$250 million, which was the original size of the fund when launched in 1997. However, the Saudi Finance Minister announced that, foreigners whether resident in Saudi Arabia or not, can now invest in the Kingdom's stock market through the purchase and sale of mutual funds traded in the country's stocks. In June 2003, the Saudi Government

approved a new capital markets law in order to create and regulate the first formal stock market in the Kingdom. The law created the Saudi Arabian Stock Exchange (SASE) as well as the Saudi Arabian Securities and Exchange Commission (SSEC) to oversee and regulate the exchange. The objective of the SSEC is to promote and develop the capital markets by protecting investor interests, and ensuring orderly and equitable dealings in securities.

Until 2001, the organisation operated through a computerised, order driven and continuous screen-based trading system, the Electronic Securities Information System (ESIS), which was supervised by SAMA. Tadawal is an updated trading system which was installed on October 6th 2001 to provide real time trading and the clearing and settlement of shares through electronic order routing. The Saudi stock market ranks as the 9th among the major emerging stock markets by size of market capitalisation. The successful flotation of the Saudi Telecommunications Company (STC) on the stock market pushed the market to 8th place when US$ 97 billion was added to the market. However, while a market is still young and the trading is sparse, two major problems often occur: price discovery and manipulation of prices. The best efforts of regulators and investors do little to eradicate these problems.

The Saudi stock market has grown over the last decade and is now the largest in the Arab world, with a capitalisation of US $326.9 billion (Saudi Annual Review, 2006). Joint stock companies, which trade shares, have increased steadily and there are now more than 127 firms listed on the stock market. In 1997, SAMA approved the participation of international investors in the Saudi stock market through mutual funds. The volume of shares traded throughout 2007 was 15 billion, valued at US $682 billion.

As regards the growth in the equity market between 1995 and 2006, the number of transaction and, their volume and value increased significantly. Market capitalisation increased by 189 per cent and the share index rose by 157 per cent. SAMA transferred the regulation of this market to the Capital Market Authority (CMA), which was established by Royal Decree number A/114 dated 13/5/1425H, 30/05/2004 (annual review 2004). The duties of the CMA are more than being a regulatory authority, as it also governs the offering listing of securities. However, CMA exhibits fewer reactions

to day-to-day activities in terms of close supervision and quick reactions than is desirable for such a market. This became apparent in the last quarter of 2004 when the market dropped by 37 per cent in three days. Most of the expatriate capital that had been traded externally moved away from the market after the events of September 11th 2001, and this unexpected flow of capital caused some instability in the equity market. Such incidents show that the actual value of traded shares is greater than their monetary value. The table below shows the huge rise in capital in the years 2005 and 2006.

Table 4.4 Annual Trends in the Saudi Stock Market

Years	Value Traded (SR)	% Change	Shares traded	% Change	Transactions	% Change
1995	23,226,589,738.00	-	116,617,939		291,742	-
1996	25,397,329,810.00	%9	137,832,560	%18	283,759	-%3
1997	62,060,355,885.00	%144	313,975,338	%128	460,056	%62
1998	51,509,159,079.00	-%17	294,637,204	-%6	376,617	-%18
1999	56,578,723,026.00	%10	527,505,706	%79	438,226	%16
2000	65,292,885,455.00	%15	554,913,443	%5	498,135	%14
2001	83,601,314,148.00	%28	691,828,307	%25	605,035	%21
2002	133,787,078,591.00	%60	1,735,838,067	%151	1,033,669	%71
2003	596,510,039,348.50	%346	5,565,856,872	%221	3,763,403	%264
2004	1,773,859,050,285.50	%197	10,298,343,128	%85	13,319,523	%254
2005	4,138,695,670,040.50	%133	12,281,330,878	%19	46,607,951	%250
2006	5,261,851,347,215.25	%27	54,439,714,702	%343	96,095,920	%106

Source: Tadawal Annual Report 2006

The analysis of the most important factors that had driven the Saudi Stock Market upward in 2003 are that, first and foremost is that the oil price was at its highest in 20 years. Obviously, there is a positive relationship between the Saudi Economy and oil prices. According to Bakheet Financial Advisors "WTI average daily price for year 2003 was US $31.12 which is the highest in 20 years", also the other reason is the stability of oil prices in the last four years. The second reason is that most analysts' official and unofficial estimates predicted a SAR 39 billion budget deficit for 2003. However, a surplus of SAR 45 billion was instead announced. The third reason is that the most important aspects of the introduction of the new Capital Market Law are that it transfers a major role in establishing and managing the securities market to private sector. Furthermore, the Law included licensing for new financial brokers, hence

causing expectations of increased competition and benefit to all investors in the market. The Independent securities supervisory commission is expected to improve the credibility and transparency of the market.

The crash of the Tadawul index from more than 20,000 points in February 2006 to less than 7,000 a year later was the biggest correction in the Saudi stock market's history. During 2008, the Saudi stock market has traded in a narrow margin of 6,850-9,300 points, with a surge in activity in October and 10% gain in total market value to more than US$400 billion.

4.4 CONCLUSION

There is no doubt that economic growth in Saudi has affected numerous changes to the financial system. These changes are not defined only in terms of the increase in financial activity and institutions, but also in the development of new techniques, and the diversification of financial instruments, such as in the sixth and seventh development plans. The significance of SMEs cannot be ignored as the Kingdom of Saudi Arabia is taking several economic actions to take advantage of the increase in government revenue following the rise of oil prices. The Saudi government recognised the importance of SMEs as a main source for job creation, developing new products and services, technological innovation and encouraging entrepreneurial culture.

Government banks and Saudi commercial banks are becoming involved in the government trend, in order to achieve the government targets. The SIDB established a programme to overcome the gap between commercial banks and SMEs, by minimising credit risk. The principal function of the programme is to provide guarantees to financial institutions in order to minimise the risk inherent in lending to SMEs. As mentioned earlier in this chapter, the SIDF programme will guarantee 75% of the loan amount in exchange for collaterals including mortgage on the fixed assets of the enterprise in favour of the lending financial institution "Saudi banks". It is also important to state that entrepreneurs need more than just funds alone.

The existing obstacles facing the development of SMEs in the Kingdom would take several years to overcome. The structural imbalances afflicting the work of many SMEs and the absence of an independent institutional framework for the aid of these businesses, results in the absence of many central pillars needed to support SMEs.

The developments that merit comment when considering Saudi Arabia's financial development are Islamic banking and Islamic modes of finance. Since the establishment of Al-Bilad Bank, there have been no restrictions on the establishment of Islamic banks. Soon after its establishment, the Government, through SAMA, allowed the bank to float on the stock market. Thus, SAMA did not treat it in the same way as a conventional bank, namely by waiting for three years of successful performance and profitability, because Al-Bilad Bank is an asset backed banking venture. The only restriction is that the name of the bank should make no reference to Islam, as this would raise a debate regarding other banks and offend the sensitivity of Islam in the country. Another reason is that the Government is aware it would be an abuse of Islam to use it as a tool to encourage customers to deposit money in the bank. Nevertheless this does not justify the fact that SAMA has created no regulations or supervisory mechanisms specifically for Al-Bilad Islamic bank. The financial instruments used by SAMA are entirely conventional as they are borrowed from the Western approach, without consideration for the fact that some elements are incompliant with the Islamic perspective and the requirements of *Shariah* law.

CHAPTER FIVE
RESEARCH METHODOLOGY

5.1 INTRODUCTION

The previous chapters have thoroughly reviewed and synthesised the literature related to firstly, Islamic financial instruments with specific reference to Profit and Loss sharing (PLS) financing, secondly, the Saudi financial sector; and thirdly, small and medium enterprises (SME) in general and with a Saudi focus, particularly. In this chapter, the study discusses the research methods utilised in this research, and also presents the appropriate statistical analysis. The selected methods aim to provide answers to the following research issues, which were identified in the study:

- The adequacy of the knowledge held by entrepreneurs regarding Islamic financial instruments especially PLS, is not at a fair level[6]
- The impact of Islamic literature on entrepreneurs' financial discussion is very powerful;
- The environment of the Saudi financial sector is not capable of absorbing more SMEs and guiding them towards a profitable existence, and Saudi entrepreneurs perceive the government to be a major constraint to business in developing financial systems of the country;
- The mainstreams of Saudi entrepreneurs do not have a partner but if they did, what percentage of share ownership would be given to the prospective partner and what type of work should be handled by the partner;
- The Saudi entrepreneurs do not know about the appropriate financing available for their business and do not perceive PLS as being more suitable for SME;
- What do Saudi entrepreneurs think of credit application conditions set by Islamic and conventional lenders?
- Saudi banks are not going enough to overcome the gap between supply and demand for credit;

[6] Fair level means: answering more that 2 question out of four knowledge questions.

- Saudi banks are not the appropriate capital provider for SME and entrepreneurs therefore need additional support that banks are not willing to provide such as, venture capital companies.

The discussion in this chapter has been separated into twelve sections. The next section presents the research methodology, the third section considers the research designed, while the fourth section reviews the reseearch method. The fifth section describes the population and sample , while section six discusses the research level and characteristics of measurements. Section seven presents the pilot study and section eight presents the structuring data analysis, involving constructing hypotheses. Section nine presents the recoded qustions within the constructing data analysis. Section ten sets out the data analysis: techniques used to explore differences among groups and the statistical tools employed in arriving at the results. Section eleven considers the difficulties and limitations of the research. Finally, section twelve presents the conclusion for this chapter.

5.2 RESEARCH METHODOLOGY

Research methodology is the techniques, methods and procedures adopted, by which the data is collected for the research project. Research methodology should include some concepts as they relate to a particular discipline or field of academic inquiry. Those concepts are (1) a collection of theories, concepts or ideas, (2) comparative study of different approaches and (3) analysis of the individual methods.

Research methodology in social science can involve quantitative and/or qualitative methods as the framework.

Quantitative research is based on methodological principles guided by positivist philosophy and researchers believe that there is an objective reality that exists separately from the perceptions of those who observe it, thus the goal of science is to better understand the reality.

Qualitative researches, on the other hand, usually emphasise words rather than quantification in data collection and analysis, therefore the method aims towards exploration of social relations and describes reality as seen by respondents (Bryman, 2001). In qualitative research methodology, the research motive is usually exploration, evaluation and revealing opinions and behaviours.

As mentioned in chapter one, this research is designed as a qualitative research study, as it explores the opinions and evaluates the perceptions of Saudi SMEs in relation to various financial and operational issues. In addition, this is an explanatory study, which classifies it as qualitative research.

5.3 RESEARCH DESIGN

Research design is a framework for a certain set of criteria that would generate suitable evidence for the researcher in the desired area of investigation. It, therefore, provides structure for the collection and analysis of data (Bryman, 2008).

Baily (1978) had classified most research projects into four broad categories. As each kind of research has its own rationale and area of function, researchers should be more carful in terms of choosing the appropriate type of research that would guide them to correct results and conclusions. The four types are as follows:

- Historical research: intended to arrive at conclusions concerning trends, causes or effects of past occurrences, hence may help to explain present events and to anticipate events in future. Thus it is a type of research in which the researchers use past events to anticipate future trends.
- Correlational study: intended to investigate the relationships between two or more quantifiable variables, hence some authors consider this type to resemble the descriptive methods, which is the fourth type set out here.
- Experimental research: designed to determine whether one or more variables causes or affects one or more outcomes.

- Descriptive research: designed primarily to describe what is going on, or what exists. So it is a type of research where the researchers use the past events to explain existing observable facts.

According to Trochim (2001), the original difference between experimental and descriptive research is that in the former, the researcher arranges for events to happen whereas in the latter, the researcher accounts for what has already happened or presently exists. This study is designed to be a descriptive study, given that it aims to describe what exists, with regard to feasibility of using Profit and Loss sharing (PLS) mode of Islamic finance as a mode of financing small and medium enterprises (SME) in the Kingdom of Saudi Arabia. However, it goes beyond the scope of a descriptive study as it aims to explore and analyse the descriptive results by responding to 'how' and 'why' questions. In addition, it adopts the interpretative method with the intention of providing further meaning to the results by responding to 'so what' questions.

As regards to the research design of this research, the framework of the study contains both types: descriptive-what things are like, and explanatory-why are they like that. Hence, this study is constructed within descriptive and analytical designs, as a case study design framework with cross-sectional data. Two types of survey research designs were distributed among the supply side represented by Saudi banks, and the demand side represented by entrepreneurs in Saudi Arabia. Semi-structured interviews targeted banks as formal capital providers and close-ended questionnaires targeted entrepreneurs in Saudi Arabia; respondents completed them in private. However, interview attempts were not successful due to biased results and unwillingness of the capital provides to participate. Hence, this study is designed as a case study on Saudi Arabian SMEs.

5.4 RESEARCH METHOD

Research methods refer to the techniques and procedures being undertaken by researchers to collect their data and being used as a source of inference for explanations and prediction. Quantitative measurement is perceived as more accurate,

valid, reliable and objective than qualitative measurement, due to the former's scientific nature. However, this does not mean that qualitative research is less valuable. Research methods occupy specific instruments, quantitative research such as questionnaires, and qualitative research such as structured interview and participant observation. The techniques include the need to listen and observe people from the chosen sample (Bryman, 2001).

Since this is a descriptive and explorative study, the survey method is utilised to collect primary data. The data collection in descriptive research is demonstrated mainly by the survey method of research. Survey methods can use different methods of research, such as qualitative (e.g. ask open-ended questions) and quantitative (e.g. use forced-choice questions) measurements. When researchers wish to collect data on phenomena that are impossible to directly observe, they utilise the survey method. The social science researcher always uses surveys to assess attitudes and characteristics on a wide range of subjects. According to Babbie (1995, p. 257) "Survey research is probably the best method available to the social scientist interested in collecting original data for describing a population too large to observe directly".

The survey method has some advantages over other methods. It has significant flexibility as to the size, location, and number of the polls. Flexible software support, such as Statistical Package for the Social Sciences (SPSS) is easy to assemble and disassemble and carry the results of the polls. Research surveys are split into two basic types, as follows:

- Cross-sectional survey: used to collect information on a population at a single point in time, like months, weeks and days in order to respond to questions raised by researchers (Sakaran, 1992). For instance, such a survey would take the form of a questionnaire which would gather primary data on how the Saudi government employees feel regard to the 15% increase in their salary of August of 2005. Another cross-sectional survey questionnaire would attempt to determine the relationship between two variables, such as the increase of

price in the Kingdom of Saudi Arabia followed by the rise of government employees' salary of August of 2005 (Riyadh Newspaper 23/08/2005).

- Longitudinal: a type of survey used to gather data over a period of time. After gathering the data, the researcher will recognise changes in the data over the mentioned period then analyse the changes in the population and try to first describe them and give explanation of their causes, if possible. According to Clover and Balsley (1984) there are a number of data collection methods used in survey studies, such as personal interviews, telephone interviews, self-administered questionnaires, drop-off questionnaires and mailed questionnaires, or a combination of the above. Salant and Dillman (1994) recommend using self-administered questionnaires whenever collecting information from people unlikely to respond by mail, or when there is a need to survey a population for which there is no complete list of members.

This study, therefore, attempted to collect the primary data through self-administered questionnaires. In addition, an attempt was made to use semi-structured interviews with the managers of banks and other capital provides. However, due to the unwillingness of such individuals to cooperate, this plan was impossible to carry out.

Surveys would be divided into various kinds of methods generally desired by the researcher such as questionnaires and the semi-structured interviews. Questionnaires are normally easy instruments for the respondents to complete. Semi-structured interviews are often conducted by the interviewer based on what the respondent says. In surveys, research questionnaires are the most commonly used method. In this study, after reviewing the literature concepts of the research and the nature of the respondents to be included in the research sample, the self-administered questionnaire was chosen as the instrument of data collection. Conducting field-work to gather required data is a restricted, time-consuming process, so questionnaires and the semi-structured interviews are preferred. There are particular reasons for specifying a research instrument as there must be compatibility between the selected research instrument and the research method in the study. Hence, there are particular conditions under which each of these data collection approaches is efficient.

When choosing a survey method, there are a number of issues that need to be considered, mentioned by Fowler 1993, as follows:

- Researchers should plan to draw a sample with regard to the way of collecting data. For example, if the sample includes respondents from town areas, where the people have no email addresses, there may be problems in using email contacts.

- The type of the population, such as their educational background and motivation to cooperate with the researcher, should be considered when selecting the instrument. To ensure reliable responses to the questions the self-administered method would require a certain level of skill on the part of the respondents.

- When the researcher has decided to adopt self-administered questionnaires, a closed-ended question form is recommended as questions may be answered simply by marking a box provided by the researcher in the questionnaires. Researchers should bear in mind the response rate, costs, as well as the time available.

5.4.1 Survey Design

This study was designed to have both types of surveys, namely questionnaires and semi-structured interviews, as questionnaires distributed amongst the entrepreneurs in need of funds while semi-structured interviews targeted the supply side of funding, that is, Saudi banks.

This research attempted to assemble the primary data required to respond to the research questions of this study by using semi-structured interviews and targeting the Saudi banks as representatives of the formal capital providers. However, these attempts was not successful. In addition, a questionnaire schedule was used mainly in

two forms: first for entrepreneurs planning to start and operating entrepreneurs, and secondly the existing businesses (small and medium businesses). The study, therefore, tests the entire sample first and separately tests entrepreneurs planning to start and operating ventures, and among these types of entrepreneurs, it looks into whether there are variance differences between the types of entrepreneurs in relations to various categories. Types of business are also tested separately by considering small businesses and medium business, and the study also investigates whether there is a mean difference between the two.

The questionnaires took under consideration the level of knowledge that entrepreneurs have, and was organised to be answered by entrepreneurs at various levels of knowledge. For the convenience of the respondents from both sides, the survey contained closed-ended and open-ended question and integrated limitations of the cost and time available.

5.4.2 Semi-Structured Interview

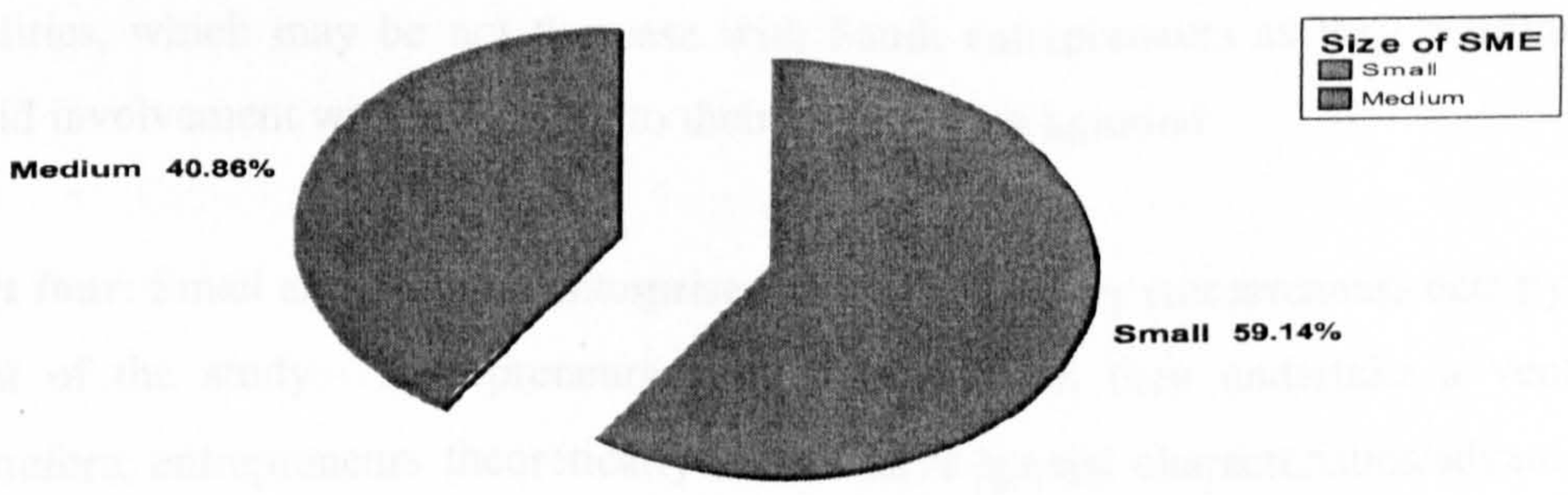
The researcher created the semi-structure interview to target the formal capital providers represented by Saudi commercial banks. There are 10 commercial banks serving the market in the Kingdom. The survey attempted to assess the efforts made by the banks in the last five years, by requiring information regarding financing SME. The researcher bears in mind the mainstream of the banks' talent in the Kingdom. Though the questions in the survey were not asking for confidential information or statistical figures, banks refused to answer the questions. Only three banks agreed to complete the survey. The answers were biased and would not add any value to the study, as their answers were based on speculative statements and not on statistical figures. Also, it was not possible to get a reasonable number of interviewees due to a lack of cooperation. Therefore, the researcher decided to exclude the semi-structure interviews from the study.

5.4.3 The Questionnaire

The questionnaire undertaken for the field-work consists of 63 questions excluding the personal information in numbering. It was prepared in the English language and

translated into Arabic language (Saudi official language) through an official translation office in the Kingdom of Saudi Arabia. It is divided into seven sections. Most of the questions were in the form of multiple-choices, in order to ease the answering, coding, evaluation and further analysis. Five hundred questionnaires were distributed in Jeddah, but only 130 were returned. Shortage of time and carelessness of the respondents caused the sample to be quite small. Of these, nineteen were excluded as they were biased. Therefore the actual sample size of the survey is 111 respondents, and included two categories: entrepreneurs planning to start and operating entrepreneurs already in the business field. Within these two categories, there are also two kinds of businesses (small and medium business) and Chart 5.1 depicts the distribution of the respondent enterprises in terms of being small and medium sized. As can be seen, nearly 60% of the participating enterprises are considered small according to the information provided by the respondents to the first part of the question in the questionnaire. Small businesses are those businesses with capital less than 1,000,000SR and with fewer than 21 employees, medium businesses are those with capital more than 1,000,000SR and less than 15,000,000 and with more than 20 but less than 100 staff. (Council of Saudi Champers, Department of SME Development Center)

Figure 5.1 Sample Distribution of Small and Medium Enterprises



As regards to the questionnaire itself, as mentioned there are seven parts in the questionnaire, each of which aims to respond to a particular research question and hypothesis established in the beginning of the research. The description of each part is as follow:

Part one: this consisted of questions relating to personal information: age, nationality, level of education, entrepreneurial categories and business experience.

Part two: an introductory part intended to estimate the respondent's knowledge of Islamic banking products, particularly for Islamic investment products such as profit and loss sharing (PLS). This part was not only about existing information but was also about predicting the usage of PLS products with capital providers i.e. banks were the main concern but other capital providers were considered also. It was not enough to ask entrepreneurs about whether they knew those products or not--the study went further and supplied them with definitions of *Mudharabah* and *Musharakah* to investigate their level of knowledge. Those respondents who knew funding was available, were asked to show whether they were aware of the appropriate kind of funding for their products.

Part three: investigates the reason for dealing with Islamic banks and Islamic financial products provided by conventional banks or other financial institutions with the objective of searching for the religiosity as part of the patronage. This part also considers the depth of entrepreneur's financial knowledge by asking them several questions to ascertain how they utilise funds in their banks accounts. Generally, entrepreneurs should have good relationships with banks and banking services and facilities, which may be not the case with Saudi entrepreneurs as they continue to avoid involvement with banks, die to their religious background.

Part four: Small and Medium enterprises (SME) headed by entrepreneurs occupy one third of the study. Entrepreneurs have a goal when they undertake a venture. Therefore, entrepreneurs theoretically should have special characteristics/advantages to enable them to manage their business properly, though this might be not the case in practice. According to the literature, the majority of entrepreneurs undertake their businesses for non-business reasons; therefore the study through the questionnaires investigates the reasons behind involvement in the businesses. To divide the sample into small and medium businesses the study sets out some requirements in order to classify the sample. Those requirements are those such as: type of business activities,

the money needed to start the business, current capital and expected number of employees.

Furthermore, the study assumed that most the Saudi entrepreneurs are sole proprietors. If that assumption was correct, the question would be whether they derived to be sole proprietor and would they desire to have partners and what kind of work should the partners undertake. The study sought to clarify a number of grey areas; the researcher could refer to this as the gap between capital providers and entrepreneurs. Banks as the main capital providers are concerned about the satisfaction of their customers. Therefore entrepreneurs were asked to express their opinions about the credit application set by both Islamic and conventional banks.

From the entrepreneur's perspective, the study tests their willingness and preparedness to have a business plan ready and audited by an external party when they apply for funds. It is important for entrepreneurs to know the type of funding that would suit their product the most. The length of the projects and the risks involved in the project are important elements for the capital providers and for entrepreneurs as well. As funding is the primary concern for entrepreneurs, they have a hidden expectation when they apply for funds. In the Kingdom the capital providers are varied and the two most common sources are savings and friends/family. The study attempted to test the depth of entrepreneur's knowledge of finance. In addition, their perceptions on various government policies related to the SMEs were questioned, as when entrepreneurs undertake a business they also become involved with government sectors, which may restrict their business rather than being supportive. Through the questionnaires in this part, one question measures those limits from the respondent's point of view.

Part five: applicable particularly to entrepreneurs who are operating businesses. It considers the method entrepreneurs used to finance their initial start-up cost of their businesses and the use of funds. It examines the experiences of operating entrepreneurs have faced or have been facing during the life of the businesses.

Part six: this part consists of twelve questions in order to investigate different areas that would help developing SME in the country. The start of this section is about the

intervention of the government to encourage the awareness of the importance of SME and whether the environment of the Saudi financial sector is capable of absorbing more SMEs and guiding them to prolonged fiscal success. The Saudi Capital Market (Tadawal) presumably should have a negative impact on the environment of the SMEs in the market.

Saudi Arabia, identified as a large state-owned business, presented a programme through the Saudi Industrial Government Fund (SIGF) alongside ten of the Saudi banks to contribute to a programme to guarantee appropriate funding for SME. Hence entrepreneurs have been asked firstly whether they know about its existence and if they did, whether they agree with its effects.

The study assumed that banks are not the right capital providers for SMEs through PLS mode of finance. Therefore the study included separate questions in this regard and provided respondents with various kinds of financial instruments that would be more suitable to finance SME using PLS, and using PLS as a mode of financing SME through different kinds of financial institutions or combination of state and private sector alliances.

Part seven: Islamic venture capital might be the most appropriate capital providers using PLS to support SME. Entrepreneurs in this open-ended section were asked to participate by giving their opinion about PLS as a mode of financing SME.

The questionnaires were distributed in Jeddah in June 2006, targeting entrepreneurs with small and medium businesses. This research contains different sectors of SME, like industry, services, and act, where each sector has its own definition and criteria of SME. Hence it was not easy to classify small business and medium businesses and separate them from each other and from large business.

A sample of the questionnaire can be found in the appendix section.

5.5 POPULATION AND SAMPLE

The issues of population and sample design are very important. The shortage of time and resources for this study led it to define and specify the population precisely and carefully, according to the research objectives, as the results would be dependent on the adopted definition (Kalton, 1983). Therefore, the researcher should select samples that have a sufficient number of elements from the population, as a representative sample of the whole population, which allows the research to make inferences on the basis of population parameters from the sample statistics (Sakaran, 1992).

According to Roscoe (1975), sample sizes smaller than 500 cases and larger than 30 cases tend to be suitable for most studies. In this study, the sample size is 130 cases and the researcher has excluded 19 cases as they gave biased responses, the response rate is therefore 0.22%. In terms of the venue for data collection, Jeddah was the only city where questionnaires were conducted. However, unsuccessful attempts were made in other cities of the Kingdom. The questionnaires were directly handed out by the researcher by utilising direct and local contacts in Jeddah. Since such local contacts were missing in other cities, conducting questionnaires was not possible elsewhere. The larger the sample, the more accurate the research, but at the same time, increasing the sample of the study, at a given confidence level, decreases the width of the confidence interval. There are also difficulties in expanding the sample size due to the socio-cultural environment prevailing in Saudi Arabia.

5.5.1 Population and Sample Frame

Population can be a group of people, institutions, or procedures that the researcher desires to describe or study. Also it can be about the researchers attempt to generalise results by studying a sample believed to be a representative of that population.

According to Nachmias (1996), a population is the aggregate of all cases that conform to some designated set of specifications. For instance, the term 'Saudi entrepreneurs' used in this study, defines a population consisting of all the entrepreneurs, both planning to start a business and operating businesses, who undertake small and medium businesses in the country. Respectively, the term 'small and medium

businesses', is used to define a population consisting of all entrepreneurs business according to the definition used in this study. In this study, the sampling frame embraces all entrepreneurs in the city of Jeddah of the Kingdom of Saudi Arabia. Zikmund (2000) and Roscoe (1975) state that a sample of more than 30 is thought to be a good estimate of the population.

5.6 LEVEL AND CHARACTERISTICS OF MEASUREMENTS

The level of scales measurement of a variable in statistics is a classification that is used to describe the nature of data contained within numbers assigned to objects and, therefore, within the variable. There are four levels of scales measurement, each one has its own rules and describes a certain level of the changing of the case study. The measurement in general is to identify the features and characteristics according to certain rules. There are four--Nominal data, Ordinal data, Interval data and Ratio data. The mentioned measurements are described in detail below:

Nominal data has no order, and the assignment of numbers to categories is purely arbitrary (i.e., 1=East, 2=North, 3=South, etc.). According to Gavin (1996) "The nominal scale is used to measure qualitative variables and yields frequency data that may be subjected to non-parametric statistical tests such as the chi-square test".

Ordinal data has order, but the intervals between scale points may be uneven. Rank data are usually ordinal, as in students' rank in class. The interval distance from the top student to the second-highest student may be great, but the interval from the second-ranked student to the third-ranked may be very small. Because of unequal distances, arithmetic operations are impossible with ordinal data, which are restricted to logical operations (more than, less than, equal to).

Interval data has order and equal intervals. Counts are interval, such as counts of income, years of education, or number of democratic votes. Ratio data are interval data which also have a true zero point. Temperature is not ratio because zero degrees is not "no temperature", but income is ratio because zero dollars is truly "no income", For most statistical procedures the distinction between interval and ratio is not

relevant and it is common to use the term "interval" to refer to ratio data as well. Occasionally, however, the distinction between interval and ratio becomes important. With interval data, one can perform logical operations, add and subtract, but one cannot multiply or divide. So this research has two kinds of scales measurement Nominal and Ordinal scales.

As to the characteristics and data levels, the mode is used for nominal data, the median for ordinal data, and the mean for interval or ratio data. However, when interval or ratio data are skewed, the mean will be a 'bad average' and for such data the median is often used instead.

Likert scales (ex., strongly agree, agree, etc.) are very commonly used with interval procedures, provided that the scale item has at least 5 and preferably 7 categories. Most researchers would not use a 3-point Likert scale with a technique requiring interval data. The fewer the points, the more likely the departure from the assumption of normal distribution, required for many tests.

Likert scales are ordinal but their use in statistical procedures assuming interval level data is commonplace for the reason given above. However, under certain circumstances, Likert and other rank data can be interval. In most cases, of course, Likert and rank variables are ordinal but the extent to which they approach intervals depends on the correspondence of the ordinal labels to the empirical data.

In light of the above, this research has used a questionnaire type that contains seven parts. Likert scales are used mainly in parts four and part six, when the researcher was investigating opinions of the sample.

5.7 THE PILOT STUDY

The pilot study was conducted by the researcher in order ascertain the clarity of the research questions by choosing a small group of people. In this stage of the research, the chosen group consisted of 30 Saudi entrepreneurs and took place in late June 2006. It is the most important preliminary step before the actual distribution of the

questionnaire. It is advisable for the researchers to consider advice from experts' perspectives regarding the questions. The outcome of the pilot study would show the researcher how clear the questions and structure were, as well as giving an indication as to the respondents' answers. Therefore, all of the pilot studies have to provide answers to some relevant areas in the data, such as the most important one, which is that every question has to measure what it is intended to measure. Also important is the uniformity of interpretation of each of respondent, and whether respondents are answering the questions correctly (Dillman, 1978).

The feedback of the pilot study in this research showed some observations, as follows:

- The questionnaire contained some sensitive questions, such as whether interest (*Riba*) had been taken by the fund-seekers.
- The exact starting capital, current capital and turnover, to allow researchers to put the participants in categories, such as small and medium businesses.

5.8 STRUCTURING DATA ANALYSIS: CONSTRUCTING HYPOTHESES

This study explores eleven main hypotheses for all entrepreneurs and sub-hypotheses to test the variance differences between the types of entrepreneurs and types of business. These hypotheses span four parts i.e. PLS awareness, Saudi SME and the Financial Sector, Entrepreneurship and Business Ownership, and Saudi Entrepreneurs and Saudi Capital Providers.

5.8.1 Section One: PLS Awareness

Hypothesis 1 Ho: Majority of Saudi entrepreneurs do not have a fair level of knowledge of Islamic banking products.

- There is no significant mean difference between Saudi entrepreneurs who plan to start a business and those who are operating a business, in terms of their general knowledge of PLS as an Islamic banking product.

- There is no significant mean difference between small and medium enterprises in terms of their general knowledge of PLS as an Islamic banking product.

5.8.2 Section Two: Saudi SME and the Financial Sector

Hypothesis 2 Ho: The majority of Saudi entrepreneurs do not think that the environment of the Saudi financial sector is capable of absorbing more SME and guiding them towards a prolonged profitable existence.

- There is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those operating entrepreneurs, that the Saudi financial sector environment is capable of absorbing more SMEs and guiding them to a prolonged profitable existence.

- There is no significant difference in the mean perception score between small and medium enterprises, that the Saudi financial sector environment is capable of absorbing more SMEs and guiding them to a prolonged profitable existence.

Hypothesis 3 Ho: The majority of Saudi entrepreneurs do not perceive the government as the major constraint on business in developing financial systems in Saudi Arabia.

- There is no significant difference in the mean level of perception between entrepreneurs who are planning to start a business and those who are operating a business, on government as a major constraint on business in developing financial systems in Saudi Arabia.

- There is no significant difference in the mean level of perception between small and medium enterprises, on government as a major constraint on business in developing financial systems in Saudi Arabia

5.8.3 Section Three: Entrepreneurship and Business Ownership

Hypothesis 4 Ho: The majority of Saudi entrepreneurs do not have partnerships.

- Partnership is independent of the type of entrepreneur (planning to start a business or operating a business already).

- Partnership is independent of the type of enterprise (small enterprise or medium enterprise).

Hypothesis 5 Ho: The acceptable percentages of ownership of a prospective partner and expected work to be handled by partner are independent of each other.

5.8.4 Section Four: Saudi Entrepreneurs and Saudi Capital Providers

Hypothesis 6 Ho: The majority of Saudi entrepreneurs do not know the appropriate financing for their business.

- There is no significant mean difference between Saudi entrepreneurs who plan to start a business and those already operating a business in terms of their knowledge of the appropriate financing for their business.

- There is no significant mean difference between small and medium enterprises regarding their knowledge of the appropriate financing for their business.

Hypothesis 7 Ho: The majority of Saudi entrepreneurs do not perceive profit and loss-sharing contracts (PLS) to be more suitable for SME.

- There is no significant mean difference between Saudi entrepreneurs who plan to start a business and those who are operating a business in their perception that profit and loss-sharing contracts (PLS) are more suitable for SME.

- There is no significant mean difference between small and medium sized enterprises in their perception that profit and loss-sharing contracts (PLS) are more suitable for SME.

Hypothesis 8 Ho: The majority of Saudi entrepreneurs do not believe that credit application conditions set by Saudi banks (Islamic and conventional banks) are too complicated.

- There is no significant difference in the mean level of difficulty perceived by entrepreneurs who are planning to start a business and those who are operating a business in terms of the credit application conditions set by Saudi banks (Islamic and conventional banks).

- There is no significant difference in the mean level of difficulty perceived by small and medium enterprises in terms of the credit application conditions set by Saudi banks (Islamic and conventional banks)

Hypothesis 9 Ho: The majority of Saudi Arabian banks are not bridging the gap between supply and demand for credit.

- There is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those who operating a business on Saudi banks' efforts for financing SME.

- There is no significant difference in the mean perception score between small and medium enterprises on Saudi banks' efforts on financing SME.

Hypothesis 10 Ho: Banks are not the appropriate capital provider for SME, and entrepreneurs therefore need particular support that banks are not willing to provide.

- There is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those operating a

business that banks are not the appropriate capital provider for SME, and entrepreneurs therefore need particular support that banks are not willing to provide.

- There is no significant difference in the mean perception score between entrepreneurs who have small or medium enterprises that banks are not the appropriate capital provider for SME, and entrepreneurs therefore need particular support that banks are not willing to provide.

Hypothesis 11 Ho: The majority of Saudi entrepreneurs do not believe that venture capital companies are more suitable for the finance of SME than other financial instruments.

- There is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those who are operating a business that venture capital companies are more suitable to finance SME than other financial instruments.

- There is no significant difference in the mean perception score between entrepreneurs who have small or medium enterprises that venture capital companies are more suitable to finance SME than other instruments.

5.9 RECODED QUESTIONS IN CONSTRUCTING DATA ANALYSIS

After collecting the questionnaires, the first step of analysing the data was encoding it, to make the data readable by computer software. In this study, the researcher, in the inferential statistical analysis, had to recode the encoded questions in order to make them compatible with the test.

The first four questions in the questionnaire are about the knowledge of PLS. In each of these four questions, respondents had been given at least four choices. Question 1 commenced with the meaning of PLS; in questions 2, 3, 4, respondents were given definitions of *Mudharabah* or *Musharakah* to match the correct definition with one of

the choices given in each question. All four questions had only one correct answer for each question. For compatibility function, recoding was conducted to narrow the choices; 1 indicates the correct answer and 2 indicates the wrong answer.

As a result, the above questions created an indicator called 'level of knowledge' ranging from 0% to 100%. Any respondents who had answered any of the above questions would be given 1 for each correct answer and 2 for each wrong answer, so 1 in each of the above four questions equals to 25%. Similarly, if any of the respondents have answered two correctly and two wrongly, he/she would have 50% as a level of knowledge.

Formula used for this purpose is: those who have a fair level of knowledge should have answered more than 50% of the above four questions correctly.

In addition to these questions on the level of knowledge, a number of other questions had to be recoded, as follows:

- Q46 recoded as group 1 called 'Non' representing the following categories (strongly disagree, disagree and do not know); group 2 representing (agree and strongly agree)
- Q31 clause C recoded as group 1 called 'Government is not a major constraint' contains 4 and 5 which is (To some extent and To a great extent) and group 2 called 'Government is a major constraint' representing (Not at all, To a limited extent and To an average extent)

Further questions related to partnership structure are also recoded as follows:

- Q 16 recoded as Group 1 have partnership and Group 2 is Sole Proprietors
- 18A vs. Q17, Q18A Using Collapsed data of Category 4 with "Others", so it called Merged Task of Partner.

Moreover, question number 7 had to be recoded, as fallows:

- Q 7 Group 1 'yes' and group 2 'no'

The original question 7 was about the type of financing appropriate for the participants' business, and respondents who answered 'yes' had to specify their choice as either Mark-up finance, PLS, Financial Support only, Government Support or Personal fund. However, the only issue of relevance was whether they know the appropriate finance for their business, despite specifying the type of finances. So, the original question was retained in its present form and the choices integrated into two groups as group 1 (yes) and group 2 (no). The hypothesis set out to find out whether or not they knew the type of finance that was appropriate for their business.

- Q 6 recoded as group 1 representing the following group (agree and strongly agree) and group 2 representing (strongly disagree, disagree and do not know)

- Q19 recoded to group 1 representing (Difficult and Very difficult) and group 2 representing (reasonable, easy and very easy. Q 20 treated the same way used in Q19).

- Q51A recoded as group 1 representing the following categories (agree and strongly agree) and group 2 representing (strongly disagree, disagree and do not know).

- Q 56 recoded as group 1 representing (Islamic banks and conventional banks) and group 2 representing (Islamic financial institutions, conventional financial institutions, government development agencies, venture capital company and others).

- Q58 which is the final recoded question, recoded as group 1 representing the following group (agree and strongly agree) and group 2 representing (strongly disagree, disagree and do not know).

5.10 DATA ANALYSIS: TECHNIQUES USED TO EXPLORE DIFFERENCES AMONG GROUPS

There are some techniques the researcher has undertaken to reach the ultimate goal of the study and to maximise the statistical descriptive and inferential analysis outcome. Some of the techniques are mentioned in detail below.

5.10.1 Parametric and Non-parametric Statistics

Researchers are perpetually confused by the decision of which group of statistical tests should be used. If the calculations of the data assumption follow some common distribution, like normal distribution, these are called parametric statistics. Before deciding to use parametric tests, researchers have to be aware of three features such as the sample of the study are random, the distribution of the data are normal and the variance of the samples is similar (Lehmkuhl 1996).

Nonparametric Statistics is a group of statistical tests that have two commonalities. Firstly, they are designed to be used with nominal and/or ordinal variables, secondly they make few or no assumptions about population parameters (Siegel, 1956). The researcher should bear in mind that non-parametric tests apply when the assumptions of parametric tests cannot be met. They effectively used to determine relationships and significance of differences using behavioural research methods.

Given that the data in this research is either nominal or ordinal and while there was little information about the population and limited assumptions concerning the distribution of the data, the researcher used both parametric and non-parametric test. Non-parametric tests have some advantages that make them much easier to use than parametric tests, as they are simpler to understand/explain and the calculations of the tests are less complex. Nevertheless, one of the main disadvantages of non-parametric tests is that they are less powerful than parametric tests (Lunsford, 1993).

5.10.2 Types of Chi-Square

Pearson's chi-square is by far the most common type of chi-square significance test. If "chi-square" alone is mentioned, it probably refers to Pearson's chi-square. This statistic is used to test the hypothesis of no association of columns and rows in tabular data. It can be used even with nominal data. Note that chi-square is more likely to establish significance to the extent that (1) the relationship is strong, (2) the sample size is large, and/or (3) the number of values of the two associated variables is large. A chi-square probability of .05 or less is commonly interpreted by social scientists as justification for rejecting the null hypothesis that the row variable is unrelated (that is, only randomly related) to the column variable. Its calculation is discussed below.

5.10.2.1 Assumptions

- **Random sample data** are assumed. As with all significance tests, if you have population data, then any table differences are real and therefore significant. If you have non-random sample data, significance cannot be established, though significance tests are nonetheless sometimes utilised as a crude "rule of thumb".

- **A sufficiently large sample size** is assumed, as in all significance tests. Applying chi-square to small samples exposes the researcher to an unacceptable rate of Type II errors. There is no universally accepted cut-off. Some set the minimum sample size at 50, while others would allow as few as 20. Note that chi-square must be calculated on actual count data, not substituting percentages, which would have the effect of creating the fiction that the sample size is 100.

- **Adequate cell sizes** are also assumed. Some require 5 or more, some require more than 5, and others require 10 or more. A common rule is 5 or more in all cells of a 2-by-2 table, and 5 or more in 80% of cells in larger tables, but no cells with zero count. When this assumption is not met, Yates' correction is applied.

- **Independence:** Observations must be independent. The same observation can only appear in one cell. This means chi-square cannot be used to test correlated data (ex., before-after, matched pairs, and panel data).

- **Known distribution**: Observations must have the same underlying distribution. The hypothesised distribution is specified in advance, so that the number of observations that are expected to appear each cell in the table can be calculated without reference to the observed values. Normally the expected value is the cross-product of the row and column marginal divided by the sample size.

- **Non-directional hypotheses;** Chi-square tests the hypothesis that two variables are related only by chance. If a significant relationship is found, this is not equivalent to establishing the researcher's hypothesis that A causes B, or that B causes A.

5.10.2.2 Statistical test used in the study

Chi-square test of independence (Row vs Column)

Non-Parametric test

Null & Alternative Hypothesis,

Ho: Row factors are independent of Column factors

Ha: Row factors affect Column factors

Ho: The row and column variables are independent.

Ha: The row and column variables are dependent.

Level of Measurement of Variable

At least Nominal (Categorical variables, Classificatory variables)

5.10.3 t-Test of Difference of Means

The t-test is appropriate when there is a single interval dependent and a dichotomous independent, and the researchers wish to test the difference of means (for example, test mean differences between samples of men and women). The t-test is used to compare the means of a criterion variable for two independent samples or for two dependent samples (for example, before-after studies, matched-pairs studies), or between a sample mean and a known mean (one-sample t-test).

The t-test is a parametric test assuming a normal distribution, but when its assumptions are met it is more powerful than corresponding two-sample nonparametric tests. The t-test is used when sample sizes are small (ex., < 30), but with larger samples the normal curve z test is used. The two tests are equivalent. Computation of t differs for independent vs. dependent samples, but inference is the same. With polychromous independents, researchers use ANOVA.

Confidence limits set upper and lower bounds on an estimate for a given level of significance (ex., the .05 level). The confidence interval is the range within these bounds. For example, for normally distributed data, the confidence limits for an estimated mean are the sample mean plus or minus 1.96 times the standard error. Some researchers recommend reporting confidence limits wherever point (ex., mean) estimates and their significance are reported. This is because confidence limits provide additional information on the relative meaningfulness of the estimates. Thus, significance has a different meaning when, for example, the confidence interval is the entire range of the data, as compared to the situation where the confidence interval is only ten percent of the range.

5.10.3.1 Types of t-tests:

1. One-sample t-tests test whether the mean of one variable differs from a constant (i.e. does the mean grade of 72 for a sample of students differ significantly from the passing grade of 70?). When $p<.05$ the researcher concludes the group mean is significantly different from the constant.

Statistical Test

One-Sample T-Test (1-tailed test)

Parametric test

Null & Alternative Hypothesis

Ho: $\mu \leq 50$

Ha: $\mu > 50$

Ho: The population's mean knowledge on Islamic products is not more than 50%. (Knowledge is not more than fair)

Ha: The population's mean knowledge on Islamic products is more than 50%. (Knowledge is more than fair)

Level of Measurement of the Variable

Interval (Likert Scale ordinal data may be considered interval)

Equivalent Test

Yes, One-Sample Kolmogorov Smirnov Test but since sample size is larger than 30 and exercises to compare similar results were obtained, parametric T-Test is more powerful in effect.

2. 2 Independent sample t-tests are used to compare the means of two independently sampled groups (i.e., do those working in high noise environments differ on a performance variable compared to those working in low noise scenarios, where individuals are randomly assigned to the high-noise or low-noise groups?) . When $p<.05$ the researcher concludes the two groups are significantly different in their means.

Statistical Test

t-Test on 2 Independent Population Means (2-tailed test)

Parametric test

Null & Alternative Hypothesis

Ho: $\mu P = \mu O$

Ha: $\mu P \neq \mu O$

Ho: There is no significant difference in the means between entrepreneurs who plan to start businesses and entrepreneurs who operate businesses already.

Ha: There is a significant difference in the means between entrepreneurs who plan to start businesses and entrepreneurs who operate businesses already.

Level of Measurement of Variable

Interval (Likert Scale ordinal data may be considered interval)

Equivalent Test

Yes, Mann-Whitney U Test but since sample size is larger than 30 and exercise to compare similar results were obtained, parametric T-Test is more powerful in use.

Test on Equality of Variances Required?

Equal Variance are not assumed if p-value < α (0.05)

3. Paired sample t-tests compare means where the two groups are correlated, as in before-after, repeated measures, matched-pairs, or case-control studies (e.g. mean candidate evaluations before and after hearing a speech by the candidate). The algorithm applied to the data is different from the independent sample t-test, but interpretation of the output is otherwise the same. One-way ANOVA is an alternative to test difference of means between independent samples.

5.10.3.2 Assumptions

Approximate normal distribution of the measure in the two groups is assumed. There are tests for normality. The t-test may be unreliable when the two samples come from widely different shaped distributions (Gardner, 1975). Moore (1995) suggests data for t-tests should be normally distributed for sample size less than 15, and should be

approximately normal and without outliers for samples between 15 and 40; but may markedly skewed when sample size is greater than 40.

Roughly similar variances, there is a test for homogeneity of variance, also called a test of homoscedasticity. In SPSS homogeneity of variances is tested by "Levene's Test for Equality of Variances", with F value and corresponding significance. These are part of SPSS output for two independent sample t-tests. There are also other tests for homogeneity of variances. The t-test may be unreliable when the two samples are unequal in size and also have unequal variances (Gardner, 1975).

Dependent/independent samples; the samples may be independent or dependent (e.g. before-after, matched pairs). However, the calculation of t differs accordingly. SPSS offers the choice as "Independent Samples T Test" versus "Paired Samples T Test." In the one-sample test, it is assumed that the observations are independent.

5.10.4 The Binomial Test

It is an exact test which should be used in lieu of the t-test when sample size is small.

It is supported by SPSS in the NPAR TESTS procedure.

Statistical Test

Binomial Test on for 1 Proportion (1-tailed test)

Non-Parametric test

Null & Alternative Hypothesis

Ho: $P \leq 0.50$

Ha: $P > 0.50$

Ho: The population proportion is less than or equal to 0.5

Ha: The population proportion is more than 0.5.

Level of Measurement of Variable

Nominal (Proportion, dichotomous variable)

5.10.5 Data Quality and Reliability

A study is valid if its measures actually measure what they claim to, and if there are no logical errors in drawing conclusions from the data. There are a great many labels for different types of validity, but they all have to do with threats and biases which would undermine the meaningfulness of the research. There should be concerns about defining and differentiating the types of validity (researchers disagree on the definitions and types, although these overlap) and more concern about all the types of questions one should ask about the validity of research (researchers agree on the importance of the questions).

Reliability is the correlation of an item, scale, or instrument with a hypothetical one which truly measures what it is supposed to. Hence, the larger the number of items added together in a scale, the less random error matters as it will be self-cancelling (think of weighing a subject on 100 different scales and averaging rather than on using just one scale), and therefore some reliability coefficients (such as Cronbach's alpha) also compute higher reliability when the number of scale items is more extensive. This refers to the degree to which the item make up the scale 'hang together' (Pallant, 2002)

5.10.5.1 Cronbach's alpha test

Cronbach's alpha is the most common form of internal consistency reliability coefficients. Cronbach's Alpha equals to zero when the true score is not measured at all and there is only an error component. Cronbach's Alpha equals 1.0 when all items measure only the true score and there is no error component. Cronbach's alpha can be interpreted as the percent of variance the observed scale would explain in the hypothetical true scale composed of all possible items in the universe. Alternatively, it can be interpreted as the correlation of the observed scale with all possible other scales measuring the same phenomenon and using the same number of items.

Cut-off criteria for the alpha value is that by convention, a lenient cut-off of .60 is common in exploratory research; alpha should be at least .70 or higher to retain an

item in an "adequate" scale; and many researchers require a cut-off of .80 for a "good scale". Table 5.1 below reveals that the Cronbach's Alpha coefficient for respondent groups for 31 items that used the scale was 0.637. This reliability value is above 0.60, and it is a common in exploratory research and hence the scale can be considered reliable in this research sample.

Table 5.1: Reliability Statistics (Cronbach's alpha coefficient)

Cronbach's Alpha	N of Items
0.637	31

5.11 DIFFICULTIES AND LIMITATIONS

This study has experienced some difficulties and in response, limited the range of the study. The Saudi cultural environment caused some barriers in terms of undermining the importance of data collections and survey methods of research, as the participants do not want to commit themselves to a position, in any kind of written form. In the first place, the researcher planned to cover three main cities in the Kingdom of Saudi Arabia, such as Riyadh, Jeddah and Dammam. 200 questionnaires were distributed in Riyadh, but because of the shortage of time and the cost of living there, a month was not sufficient time to have the questionnaires returned. In response to this experience, researcher and his supervisor decided to narrow the geographical area of the research and distributed questionnaires only in Jeddah. As mentioned early, 500 questionnaires were distributed but less than half of distributed questionnaires were returned. Again, shortage of time and carelessness of the respondents caused the sample to be quite a small one, of 130 respondents. The researcher excluded nineteen of these questionnaires as they were biased responses and the actual sample size of the survey is 111 respondents.

The semi-structure interview form attempted to assess the efforts made by the banks in the last five years in terms of financing SMEs. The researcher, as a Saudi citizen, bears in mind the effects of the banks' traditional attitude of non-disclosure in the Kingdom. Despite the fact that the semi-structure interview in the survey was not

requesting confidential information or specific statistical figures, banks refused to answer the questions or even to deal with them. Only three banks accepted the survey, under the condition of asking the researcher to sign a confidentiality agreement. The answers provided added no value to the study, as the answers were based on the optimistic theories rather than existing, statistical figures. Therefore the researcher decided to exclude the semi-structure interviews from the study.

5.12 CONCLUSION

The method used in data collection was the most frequently used method (survey design), employing questionnaires as the research instrument, applied in a cross-sectional manner. Combinations of statistical techniques were used to answer the research issues, such as the Binomial test, Q-square and t-test. The questionnaire was constructed according to the research hypotheses. It was divided into seven parts mentioned earlier in this chapter. A pre-test of the quality and reliability of the survey questions was also conducted.

The most important aim of this research was to explore if the financial institutions and Saudi entrepreneurs understand the significance of using PLS as a mode of financing SME and to develop and suggest a practicable PLS-based mode of financing to these two parties. Accordingly, the main concern of this chapter was to describe and explain the methods and procedures adopted by the researcher in the empirical investigation of the possibility of using PLS as a mode of financing SME in Saudi Arabia. The empirical investigation of this study included seven general issues that should be answered in order to meet the research objectives.

CHAPTER SIX
SAUDI SMEs AND BUSINESS ENVIRONMENT
DESCRIPTIVE EMPIRICAL FINDINGS

6.1 INTRODUCTION

The previous chapters lay the foundation of this study, while Chapter 5 provides the research framework and discusses the research process. This chapter is the initial empirical analysis chapter, which aims to provide a descriptive analysis of the primary data collected for this study.

The descriptive analysis in this study has been divided into two chapters. This chapter presents the descriptive analysis of the research questionnaires, while the next chapter (Chapter 7) presents a statistical analysis, where appropriate methodology is applied to analyse the associated research hypotheses. The descriptive analysis provides a detailed description to enable the reader to value the nature and characteristics of the sample. A multinomial logistic regression analysis of the research variables is attempted in the next chapter as part of the statistical analysis using different kinds of tests such as cross-tabulation, binomial test, t-test, and chi-square.

The descriptive analysis in this chapter utilises the data assembled through the use of questionnaires, the details of which are presented in Chapter 5. As previously noted, the questionnaire is divided into seven parts. The aim of the questionnaire was the initial classification of respondents, then an introduction to the Islamic financial contract, leading respondents through to the future of PLS. Personal information consisted of questions relating to age, nationality, and level of education, entrepreneurial categories and business experience, located in the end of the questionnaire. However, the analysis of the data commenced with the personal information section and therefore is considered the first part for introductory reasons only. The second part covered respondent's knowledge on profit & loss sharing (PLS) and their understanding of the related terminology. The third part related to Islamic finance, religiosity and the influence of Islam on the financial behaviour of the

participants. The fourth part included different hypothetical questions relevant to each category of the sample type of business, *i.e.* participatory or non-participatory, and the nature of business. The fifth part was only targeting SMEs already in operation. Part six was about the Saudi Arabian business environment, including entrepreneurs' awareness of government policies. The last part was about sharing views with entrepreneurs on the future of PLS.

As discussed in Chapter 5, five hundred questionnaires were distributed in Jeddah, but only 130 were returned. Of these, nineteen were excluded as they were biased responses. Therefore the actual sample size of the survey for this study is 111 respondents, and included two categories: entrepreneurs planning to start and operating entrepreneurs, namely those who are already in the business field.

6.2 RESPONDENTS' BACKGROUND VARIABLES

This section analyses the characteristics of the sample in terms of personal information and shows percentages that provide descriptive statistics of categorical variables. The mean-value and standard deviations describe the characteristics of continuous variables. Therefore, the starting point in this section is age--the results show that 43.2% of the sample was between 35-44 age group, 35.1% among 25-34, 8.1% under the age of 25, 7.2% between 45-54 and only 6.3% over the age of 54. The central of the sample are between 25-34 to 35-44 as shown by the mean-value, 2.684, which is between 2 and 3.

Secondly, with regard to the nationality of the respondents, the survey showed 65.8% of the sample to be Saudis and 34.2% non-Saudi. In terms of the levels of education, the results showed that 60.4% of the sample graduated from university, 15.3% graduated from high school, 14.4% were postgraduates, 6.3% graduated from intermediate school, 1.8% graduated from primary school and 1.8% fell in the 'other' category (Table 6.1.).

In addition, the results, in table 6.1, show that in the Entrepreneurial Categories and Experience elements clarify some of the problems faced by SMEs, as some

entrepreneurs lack experience for running a business. Of the sample, 41.4% were entrepreneurs planning to start a new business, 31.5% were entrepreneurs with an operating business, 12.6% were entrepreneurs with an operating business and a full-time government job, 7.2% were entrepreneurs with an operating business and a full-time private sector job and 7.2% were 'other'. In terms of business experience, the results showed that 30.6% of the sample had no experience, 29.7% had from 6 to 10 years experience, 28.8% had from 1 to 5 years experience, 6.3% had more than 15 years experience and 4.5% had from 11 to 15 years of experience.

Table 6.1 Personal Information

Age		Percent	Mean-value	Std. Deviation
Valid	Under 25	8.1	2.6847	.95329
	25-34	35.1		
	35-44	43.2		
	45-54	7.2		
	Over 54	6.3		
Nationality		Percent	Mean-value	Std. Deviation
Valid	Saudi	65.8	1.3423	.47665
	Non-Saudi	34.2		
Level of Education		Percent	Mean-value	Std. Deviation
Valid	Primary School	1.8	3.8468	.87592
	Intermediate School	6.3		
	High School	15.3		
	University	60.4		
	Postgraduate	14.4		
	Other (Please specify)	1.8		
entrepreneurial categories		Percent	Mean-value	Std. Deviation
Valid	Entrepreneur planning to start a new business	41.4	2.0721	1.21888
	Entrepreneur with an operating business	31.5		
	Entrepreneur with an operating business and full-time government job	12.6		
	Entrepreneur with an operating business and full-time private sector job	7.2		
	Other (please specify)	7.2		
Business Experience		Percent	Mean-value	Std. Deviation
Valid	No experience	30.6	2.2703	1.13575
	From 1 to 5 years	28.8		
	From 6 to 10 years	29.7		
	From 11 to 15 years	4.5		
	More than 15 years	6.3		

6.3 ENTERPRENEURS' KNOWLEDGE OF ISLAMIC FINANCE

The second part of the questionnaire looked at the knowledge of entrepreneurs, both those planning to start projects and those operating entrepreneurs, in defining various Islamic financial instruments which can be used in PLS financing. As answers to Question 1 shows, 83.8% of the sample chose an Islamic financial instrument in their response to the definition of PLS, as they believed this to be the right answer for the meaning of PLS (Table 6.2).

In the following question (Question 2) a statement in the form of a definition is provided, and the respondents were asked to find the corresponding Islamic finance model in a list. The definition in Question 2 was related to musharakah, the key to the answer being "all the partners share the profit or loss". This definition made a correct response easy for the respondents as 73.9% of the sample was correct in defining musharakah. Thus, the majority of entrepreneurs possess the type of knowledge and awareness needed to successfully operate in the related business area (Table 6.2).

Question 3 repeats the same method as above for mudharabah. As the results in (table 6.2) demonstrate, 44.1% of the sample chose mudharabah as the corresponding financial mode for the provided text, which was the correct answer, and 40.5% chose musharakah. Also, the mean value was 1.88, which was closer to musharakah. The outcome of this part undoubtedly shows that there are some difficulties amongst the entrepreneurs in terms of the defining and locating the differences between mudharabah and musharakah.

In the following question, difficulty faced in recognising the appropriate definition related to mudharabah can be observed. The given definition was equally defined with different terminology: mudharabah 23.45%, murabahah 24.35% and musharakah 30.6%. The lowest percentage was related to the correct choice, 'mudharabah'. It is worth mentioning that although the definition described one partner providing capital, 15.3% of the sample chose 'loan' for their answer, as they thought it was the correct definition. To clarify, the capital provider in the murabahah, i.e. banks, individuals and financial institutions, give loans through purchases of the required good, although they are not a partner in the business. (Table 6.2)

Table 6.2 Profit and Loss Sharing Knowledge

P1Q01- What profit and loss sharing (PLS) mean to you?		Percent	Mean-value	Std. Deviation
Valid	Islamic financial instrument	83.8	1.2342	.58706
	Conventional funding method	9.9		
	Banking financial product	5.4		
	Other (please specify)	.9		
P1Q02- A joint enterprise in which all the partners share the profit or loss of the joint venture", this definition explains which of the following financial instruments?		Percent	Mean-value	Std. Deviation
Valid	Mudharabah	14.4	2.0811	.90589
	Musharakah	73.9		
	Murabahah	8.1		
	Bai-alSalam	.9		
	Bai-istisna	1.8		
	Lease Purchase	.9		
P1Q03- The investment comes from the first partner while the management and work is an exclusive responsibility of the other partner", this definition explains which of the following financial instruments?		Percent	Mean-value	Std. Deviation
Valid	Mudharabah	44.1	1.8829	1.27735
	Musharakah	40.5		
	Murabahah	9.9		
	Ijara	1.8		
	Bai-istisna	.9		
	Lease Purchase	.9		
	Other (please specify)	1.8		
P1Q04- One partner provides capital to another for investing it in a commercial enterprise", this definition explains which of the following financial instruments?		Percent	Mean-value	Std. Deviation
Valid	Mudharabah	23.4	2.5946	1.33061
	Musharakah	30.6		
	Murabahah	24.3		
	Ijara	6.3		
	Loan	15.3		
P1Q05- Have you ever used Mudharabah or Musharakah when you deal with capital providers?		Percent	Mean-value	Std. Deviation
Valid	Yes (please specify)	18.0	1.8198	.38608
	No	82.0		
P1Q06- Do you think profit and loss-sharing contract (PLS) is more suitable for SMEs?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	2.7	3.7297	.95295
	Disagree	9.0		
	Don't know	18.9		
	Agree	51.4		
	Strongly agree	18.0		

In determining the PLS experience of the participants, answers to Question 5 in (table 6.2) demonstrate that the percentage of entrepreneurs that have not yet practiced PLS with a capital provider was 82%. This result corroborates the need for more PLS and Islamic financial engineering and less involvement in mark-up contracts. The results

are also substantiated by those of Rosly and Abu Baker (2003) who showed that *murabahah* and *ijara* were involved in more than 90 percent of the Islamic banking activities in Malaysia, while 93 percent of Islamic bank activities in Bahrain and 88 percent in Dubai currently involve *murabahah* (Iqbal and Molyneux 2005) .

Although a high percentage of the participants have not practised PLS, there were numerous enthusiastic responses, as respondents agreed with the statement that PLS is more suitable for SMEs. They believed it was more suitable for PLS. As responses to Question 6 showed, 51.4% answered 'agree', 18% chose 'strongly agree'. Also, the mean-value of 3.72 suggests an 'agree' finding. The observation showed that Islamic financial institutions use the advantages of Islam to market their Islamic products by giving customers an indication that the particular products were well treated and created by trusted Shariah scholars. Therefore, once the banks' clients became aware of this compatibility, their involvement would increase due to Islamic compliance (Table 6.2).

The next questions looked at entrepreneurs' financial knowledge. Responses to Question 7 in table 6.3 show that 52.7% did not know what type of finance was more appropriate for their business. Therefore, more information on investment and finance is required so that the entrepreneurs are fully aware of the financial possibilities. However, 47.3% of the respondents stated that they know the appropriate financing for their product, and 27% of this last group could specify the kind of finance they wished to have: 8.2% needed mark-up finance, 12.7% required PLS finance, 4.5% needed financial support, only 0.9% asked for government support and 0.9% needed personal support (see table 6.3).

Islamic banks might not perceive the advantages of PLS, and therefore do not practise it as preferred financing for their customers. This is substantiated by the results provided for Question 8, as 79.3% of the sample had never worked with Islamic banks for PLS oriented financing.

Table 6.3 Experience of Islamic Finance

P1Q07- Do you know what kind of financing is more appropriate for your business?		Percent	Mean-value	Std. Deviation
	Yes, please specify	20.0	4.72	2.567
	Mark-up finance	8.2		
	PLS	12.7		
	Financial Support only	4.5		
	Government Support	.9		
	Personal fund	.9		
	No	52.7		
P1Q08-Do you or have you worked with Islamic banks for a PLS oriented financing?		Percent	Mean-value	Std. Deviation
Valid	Yes	20.7	1.7928	.40714
	No	79.3		

6.3.1 Islamic Finance and Religiosity

In this part of the chapter, the investigation concerns the importance of religion for respondents. Table 6.4 shows how respondents prioritised religion even to the detriment of financial transactions. Banks and other financial institutions in the Kingdom of Saudi Arabia providing Islamic products have become conscious of this importance, which would justify the widespread of Islamic finance in the Kingdom.

In responding to Question 9, 89.2% of the sample stated that they would used Islamic financial instruments for a religious reason only, regardless of economic value or profitability. This is an expected result in a conservative society. Respondents who chose 'other' comprised 9% of the sample and 0.9% stated that they do not prefer to be financed by either Islamic banks or conventional banks. Only 3.6% of the sample looked at Islamic finance as profitable (Table 6.4).

Responses to Question 10 in table 6.4 show that 47.7% of the respondents utilised funds from their own accounts in order to invest themselves. This result would indicate the absence of business partnerships. Also, 13.5% of the sample used the funds to purchase consumer goods, whereas the funds were extended for the purpose of investment; 12.6% of the sample utilised funds to deal on the Saudi stock market, 4.5% chose 'other' and utilised funds for saving purposes. Only 6.3% of the sample dealt with Islamic banks or Islamic windows and 3.6% dealt with conventional banks.

As can be seen in (table 6.4), while responding to Question 11, 54.1% of the sample chose Islamic banks and Islamic financial institutions as a first provider or source of financing for their business needs. The second highest percentage was 31.5% who used friends and family. Moreover, only 8.1% of the sample preferred conventional banks as business fund providers, 1.8% preferred not to have funds and 0.9% chose 'mark-up finance', which would raise the question as to whether they know that mark-up is an Islamic financial product.

Table 6.4 Islamic Finance and Religiosity

P2Q09- Which of the following attracted you to deal with Islamic financial instruments?		Percent	Mean-value	Std. Deviation
Valid	Religiosity	89.2	1.27	.884
	Profitability	3.6		
	Competitive services	.9		
	More access to finance	4.5		
	Other, please specify	.9		
	I do not prefer any kind of fund	.9		
P2Q10- Do you utilise funds from your bank account in order to; (You can choose more than one option)		Percent	Mean-value	Std. Deviation
Valid	Invest directly by yourself	47.7	3.4505	2.86273
	Invest through friends	5.4		
	Deal with Islamic banks or window	6.3		
	Deal with a conventional bank	3.6		
	Deal in Saudi stock market	12.6		
	Transfer to another account	2.7		
	Keep it at home	3.6		
	Purchase consumer goods	13.5		
	Other	4.5		
P2Q11- If you need money for business reasons, who would you borrow from?		Percent	Mean-value	Std. Deviation
Valid	An Islamic bank or Islamic Financial Institution	54.1	1.97	1.254
	Any financial institution that offers conventional loans	8.1		
	A friend or family	31.5		
	Other (please specify)	2.7		
	Depend on my own savings	.9		
	I don't prefer any kind of fund	1.8		
	Mark-up finance	.9		
P2Q12- If you have the project ready and there is no Islamic finance available, would you go with conventional financial instruments?		Percent	Mean-value	Std. Deviation
Valid	Yes	22.5	1.7748	.41963
	No	77.5		

The desire for Islamic banking in the Kingdom of Saudi Arabia came from the demand-side, as the responses to Question 12 illustrate. Thus, in the absence of Islamic funds, 77.5% of the sample would not apply for funds from conventional banks, while only 22.5% of the respondents would go with conventional banks to finance their projects. This indeed indicates the potential strength of the Islamic banking in Saudi Arabia.

6.4 TYPE OF BUSINESS: PARTICIPATORY OR NON-PARTICIPATORY

This section consisted of the analysis of the following six questions, numbered from 13 to 18, which established the type of business and whether it was participatory or not.

Question 13 considered the main reason for respondents' decision of starting their own business. As the results in table 5 indicate, 41.4% of the sample undertook their business venture in order to become self-employed and gain independence; 22.5% of the sample did so to improve their living conditions and 20.7% of the started their business because the expected income from self-employment would be greater than the income from a salaried position.

The second question, Question 14, asked about the most important factor the respondents considered when they decided to undertake a new business. The result showed that 39.6% considered familiarity with the business to be the most important factor, and 23.4% of the sample considered the ability to run the business and still take care of their family and other responsibilities to be the most important. Only 11.7% of the sample considered profitability to be the most important factor, another 11.7% considered working capital required for the business as the most important factor, while 9.0% considered the main factor was that it was the correct season for the product or that the service was in demand. Therefore, the last two percentages represent the spirit of entrepreneurs who can be predictable and take risks (Table 6.5).

Question 15 looked in some detail at the respondents' business. As the answers in table 6.5 demonstrate, in terms of starting capital 59.1% of the sample needed less than one million Saudi Arabian Riyal (SAR) and 40.9% needed from 1 million to 15 million (SAR). For current capital, 77.0% of the sample had less than 1 million available for business and 23.0% had 1 million to 15 million SAR available. As far as expected numbers of employees were concerned, 77.2% of the sample expected to employ 20 or under and 22.8% expected to employ 21 or more. Consequently, the majority of the sample can be classified as small business activities (Table 6.5).

Table 6.5 Type of Business/ Participatory or Not and What Kind

P3Q13- What is the main reason for starting your own business?			Percent	Mean-value	Std. Deviation
Valid	To become self-employed and gain more independence		41.4	2.5856	1.73451
	Because the expected income from self-employment is greater than the income from a salaried position		20.7		
	To follow the family tradition		5.4		
	Because there were no other employment opportunities available		6.3		
	To improve living conditions		22.5		
	Other (please specify)		3.6		
P3Q14- Please indicate the most important factor you consider when you decide to undertake a new business.			Percent	Mean-value	Std. Deviation
Valid	Familiarity with the business		39.6	3.1712	2.09273
	It is the season the product or service is in demand		9.0		
	What others are doing		4.5		
	The business seemed profitable		11.7		
	The working capital required for the business		11.7		
	I can do it and still take care of my family and other responsibilities		23.4		
P3Q15- Would you tell us more about the business you are involved, such as?			Percent	Mean-value	Std. Deviation
Valid	Starting capital (SAR)	Less than 1 million	59.1	1.4086	.49424
		1 million to 15 million	40.9		
	Current capital (SAR)	Less than 1 million	77.0	1.2297	.42353
		1 million to 15 million	23.0		
	Expected employees	20 and less	77.2	1.2283	.42201
		21 and more	22.8		
P3Q16-What is your business ownership structure?			Percent	Mean-value	Std. Deviation
Valid	Sole proprietor		52.7	1.8727	1.10967
	Family partnership		20.9		
	Non-family partnership		14.5		
	A limited liability company		10.0		
	Other (please specify)		1.8		
P3Q17-If you are to have a partnership in your business, what is an acceptable percentage that could be owned by a partner?			Percent	Mean-value	Std. Deviation
Valid	Less than 25%		20.7	2.3784	1.04494
	From 26% to 49%		42..3		
	From 50% to 75%		15..3		
	Don't want a partner		21.6		
P3Q18- What kind of work should the partner be responsible for?			Percent	Mean-value	Std. Deviation
Valid	Administration (daily operations)		19.6	2.6804	1.15962
	Marketing		20.6		
	Providing money only		40.2		
	Providing raw materials, machinery or equipment		11.3		
	Other (please specify)		8.2		

The fourth question in this section, Question 16, asked about the ownership structure of the participants' business. The results in table 6.5 show that 52.7% of the sample were sole proprietors, 20.9% had a family partnership, 14.5% a non-family partnership and 10.0% a limited liability company. Sole proprietors were the largest percentage and this provides an indication of the absence of the spirit of partnership.

Entrepreneurs prefer to have more independence and might face difficulties dealing with partners (Table 6.5).

Question 17, the fifth in this section, attempts to measure the respondents' attitudes towards business partnership and the extent of an acceptable percentage of partner-ownership. As can be seen in table 6.5, 42.3% could grant a partner from 26% to 49% of the enterprise, 20.7% could accept a partner with less than 25% and 21.6% needed no partner. No more than 15.3% of the sample would agree to give a partner from 50% to 75%.

The last question in this section assumed that respondents have a partner and asked what kind of work should the partner be responsible for. The results in table 6.5 show that 40.2% of the sample determined the responsibility of the partner to be financial provision only. It is possible that respondents are looking for a mudharabah contract. More than 20.6% gave the partner the responsibility for marketing and 19.6% considers the partner be in charge of the administration (daily operations) (Table 6.5).

6.5 FINANCIAL CONDITIONS SET BY BANKS

Financial conditions set by Islamic banks; Islamic windows and conventional banks are the main concerns for entrepreneurs when they apply for funds. As the results in (table 6.6) show 22.9% of the sample thought the financial conditions set by Islamic banks or Islamic windows were very challenging, 41.3% thought they were difficult and 33.0% thought they were reasonable (Table 6.6).

Furthermore, the results of the financial conditions set by conventional banks are analogous; 23.4% of the sample thought they were very difficult, 35.5% thought they were difficult and 30.8% thought they were reasonable. Only 9.3% of the sample thought the financial conditions set by conventional banks were easy and 0.9% thought they were very easy. (Table 6.6)

Table 6.6 Financial Conditions Set by Islamic Banks, Islamic Windows and Conventional Banks

P4Q19-In your opinion, what do you think of the financial conditions set by Islamic banks or Islamic windows in other conventional banks when you apply for finance for your business?		Percent	Mean-value	Std. Deviation
Valid	Very difficult	22.9	2.1651	.83349
	Difficult	41.3		
	Reasonable	33.0		
	Easy	1.8		
	Very easy	.9		
P4Q20-In your opinion, what do you think of the financial conditions set by conventional banks when you apply for finance to your business?		Percent	Mean-value	Std. Deviation
Valid	Very difficult	23.4	2.2897	.96162
	Difficult	35.5		
	Reasonable	30.8		
	Easy	9.3		
	Very easy	.9		

6.6 BUSINESS PLAN (FEASIBILITY STUDY)

This section contains three questions which examine the importance of business plans and whether they provided entrepreneurs with a clear expectation of their business requirements. This part of the study was commenced by asking respondents whether they had provided a business plan (feasibility study) to the capital provider, the results of which are presented in table 6.7, 65.8% of the sample reported "yes" and 34.2% had not given the capital provider a business plan. For those who had submitted a business plan only 33.7% had their business plan audited by external parties and the rest, or 66.3%, reported "no" as they did not have their business plan audited. Additionally, the last question in this section was related to those entrepreneurs who did have a business plan. According to their business plans, 41.4% of them needed a capital fund only, 21.2% needed operational funds, 10.1% needed a machinery fund and 22.2% of them needed all three of the above. (Table 6.7)

Table 6.7 Business Plan (Feasibility Study)

P4Q21-When you apply for funds, do you provide a business plan (feasibility study) to the capital provider?		Percent	Mean-value	Std. Deviation
Valid	Yes	65.8	1.3423	.47665
	No	34.2		
P4Q22-Did you have your business plan audited by external parties?		Percent	Mean-value	Std. Deviation
Valid	Yes	33.7	1.6635	.47481
	No	66.3		
P4Q23-According to your business plan, do you think you need;		Percent	Mean-value	Std. Deviation
Valid	Capital fund	41.4	2.34	1.506
	Operational fund	21.2		
	Machinery fund	10.1		
	All of them	22.2		
	Other (please specify)	2.0		
	Lack of fund	1.0		
	Part support	1.0		
	Don't Know	1.0		

6.7 NATURE OF BUSINESS

This section looks at the nature of business by analysing three further questions. As the risk is the foremost concern for the capital provider, this section of the questionnaire began by asking the entrepreneurs to rank the risk in the business undertaken. The result, as Table 6.8 shows, was that 42.3% of the sample thought that the risk in their business was normal, 24.3% believed they have a less risky business than normal, 16.2% of the sample believed they have a risky business and 5.4% stated they have an extremely risky business. Only 11.7% of the sample believed that there was no risk in their business.

Also, this section of the study considered the lifetime of the business and showed two equal results, in that 41.4% had long and medium-term investments and 17.1% of the sample had short-term investments.

Last in this section was the examination of the type of businesses, identified by sector. As table 6.8 indicates, 30.6% of the businesses were in the services sector, 29.7% of businesses in the retail/wholesale trade, 17.1% in the manufacturing sector, 9.0% in real estate, 5.4% in construction and 4.5% in agriculture, while 3.9% of the sample answered 'other' without specifying.

Table 6.8 Nature of the Project

P4Q24-How would you rank your business risk?		Percent	Mean-value	Std. Deviation
Valid	Extremely Risky	5.4	3.2072	1.02795
	Risky	16.2		
	Normal Risk	42.3		
	Less Risky	24.3		
	No Risk	11.7		
P4Q25-How would you classify your project?		Percent	Mean-value	Std. Deviation
Valid	Long-term investment	41.4	1.7568	.72884
	Medium-term investment	41.4		
	Short-term investment	17.1		
P4Q26-In which sector does your project fit?		Percent	Mean-value	Std. Deviation
Valid	Manufacturing	17.1	3.5676	2.05657
	Services	30.6		
	Construction	5.4		
	Real estate	9.0		
	Agriculture	4.5		
	Retail/ wholesale trade	29.7		
	Other (please specify)	3.6	.	

6.8 CAPITAL PROVIDERS AND FORM OF FINANCIAL RETURN

Question 27 was an introductory step to ascertain the preference of capital providers and financial return. Entrepreneurs in the study were asked whether they were going to require funds from a capital provider. The study showed that 55.5% of the sample reported that they will require such funds and 44.5% said they would be satisfied with what they have (Table 6.9).

Table 6.9 Principle of Borrowing

P4Q27-If you have enough funds to start your own business would you ask for funds from a capital provider?		Percent	Mean-value	Std. Deviation
Valid	Yes	55.5	1.4455	.49929
	No	44.5		

Question 28 was a ranking preference question, where the study gave the entrepreneurs four types of capital providers and asked them to prioritise them. The preferred capital providers were as follows:

(A) Islamic bank: 49.1% of the sample chose an Islamic bank as a first preference, 40.9% as a second preference, 9.1% as a third preference and 0.9% as a fourth preference.

(B) Conventional bank: 6.4% of the sample chose a conventional bank as a first preference, 14.5% as a second preference, 35.5% as a third preference and 43.6% as a fourth preference.

Table 6.10 Source of Funds

P4Q28- Which of the following capital providers would you request funds from? (Please rank the options, 1 being the most preferred, and 5 is the least preferred,				
A-Islamic bank		Percent	Mean-value	Std. Deviation
Valid	First Preference	49.1	1.6182	.69046
	Second Preference	40.9		
	Third Preference	9.1		
	Fourth Preference	.9		
B-Conventional bank		Percent	Mean-value	Std. Deviation
Valid	First Preference	6.4	3.1636	.90389
	Second Preference	14.5		
	Third Preference	35.5		
	Fourth Preference	43.6		
C-Capital market		Percent	Mean-value	Std. Deviation
Valid	First Preference	3.6	3.2636	.77433
	Second Preference	9.1		
	Third Preference	44.5		
	Fourth Preference	42.7		
D-Friends or family		Percent	Mean-value	Std. Deviation
Valid	First Preference	40.9	1.9545	1.01716
	Second Preference	35.5		
	Third Preference	10.9		
	Fourth Preference	12.7		

(C) Capital market: 3.6% of the sample chose the capital market as a first preference, 9.1% as a second preference, 44.5% as a third preference and 42.7% as a fourth preference.

(D) Friends or family: 40.9% of the sample chose friends or family as a first preference, 35.5% as a second preference, 10.9% as a third preference and 12.7% as a fourth preference (Table 6.10).

Entrepreneurs always have expectations about capital providers and the forms of financial return, which are the issues dealt with by questions 29 and 30 respectively.

Entrepreneurs' expectations about a capital provider were that 56.4% expected partial financial support, 34.5% full financial support, 3.6% technical support, while managerial support, expertise and skills were expected by 1.8% in each category, and 0.9% answered 'other'; 0.9% wished to have all available support, the summary of which can be seen in table 6.11.

Table 6.11 Expectation From Capital Providers

P4Q29- What do you expect from the capital provider?		Percent	Mean-value	Std. Deviation
Valid	Full financial support	34.5	2.05	1.529
	Partial financial support	56.4		
	Technical support	3.6		
	Managerial support	1.8		
	Expertise and skills	1.8		
	Other (please specify)	.9		
	All of them	.9		

Additionally, as depicted in table 6.12, the form of financial return entrepreneurs preferred on the capital investment was as follows: 37.6% of the sample preferred to have part capital gains part current dividends, 32.1% preferred to have entirely long-term capital gains, 13.8% preferred to have mostly long-term capital gains, 10.1% preferred to have entirely current dividends and 6.4% preferred to have mostly current dividends. Hence, most of the sample are authentic investors as they preferred to invest through methods that were relevant to their business goals and would enable them to profit from the long-term investing in assets.

Table 6.12 Financial Return

P4Q30- What form of financial return would you prefer on your capital investment?		Percent	Mean-value	Std. Deviation
Valid	Entirely long-term capital gains	32.1	2.4862	1.28102
	Mostly long-term capital gains	13.8		
	Part capital gains, part current dividends	37.6		
	Mostly current dividends	6.4		
	Entirely current dividends	10.1		

6.9 BUSINESS CONSTRAINTS

The survey also considered other factors, assuming that they might have an influence on the sector in which the entrepreneurs business is positioned, whether direct or

indirect. In question 31, entrepreneurs were given seven items to consider as constraints on their business. Those were as follows:

(A) Conditions imposed by the bank for borrowing funds: 34.5% of the sample responded that banks' conditions 'to a great extent' imposed constraints on their business, 22.7% chose 'to some extent', 17.3% chose 'to a limited extent', 14.5% chose 'not at all' and 10.9% chose 'to an average extent'.

(B) Lack of basic public services and utilities: 26.4% of the sample chose lack of basic public services 'not at all', 26.4% chose 'to an average extent', 23.6% chose 'to some extent', 12.7% chose 'to a limited extent 'and 10.9% to a great extent.

(C) Government regulation such as bureaucratic procedures, labour regulations etc: 37.8% of the sample chose government regulation 'to a great extent' creating constraints, 34.2% chose 'to some extent', 13.5% chose 'to a limited extent', 8.1% chose 'to an average extent' and 6.3% chose 'not at all'.

(D) High cost of raw materials: 27.5% of the sample chose high cost of raw materials 'to an average extent', 24.8% chose 'to a limited extent', 20.2% chose 'to some extent', 15.6% chose 'to a great extent' and 11.9% chose 'not at all'.

(E) Lack of access to finance or liquidity constraints: 29.1% of the sample chose lack of access to finance or liquidity constraints 'to a great extent', 27.3% chose 'to some extent', 20.0% chose 'to an average extent', 20.0% chose 'to a limited extent' and 3.6 chose 'not at all'.

(F) Lack of saving facilities: 29.6% of the sample chose lack of saving facilities 'to a limited extent', 25.9% chose 'to an average extent', 22.2% chose 'to some extent', 13.9% chose 'to a great extent' and 8.3% chose 'not at all'.

(G) Uncompetitive market for funds: 45 % of the sample chose the uncompetitive market for funds 'to a great extent', 15.6% chose 'to an average extent', 14.7% chose 'to some extent', 12.8% chose 'not at all' and 11.9% 'to a limited extent'.

Table 6.13 Sources of Constraint on Businesses

P4Q31- To what extent do you consider each of the following items as a constraint on your business?					
A-Bank's condition for fund		Percent	Mean-value	Std. Deviation	Ranking order
Valid	Not at all	14.5	3.4545	1.47540	4
	To a limited extent	17.3			
	To an average extent	10.9			
	To some extent	22.7			
	To a great extent	34.5			
B-Lack of basic public services, utilities		Percent	Mean-value	Std. Deviation	Ranking order
Valid	Not at all	26.4	2.8000	1.35322	7
	To a limited extent	12.7			
	To an average extent	26.4			
	To some extent	23.6			
	To a great extent	10.9			
C- Government regulation (Bureaucratic procedures, labour regulation *etc.*)		Percent	Mean-value	Std. Deviation	Ranking order
Valid	Not at all	6.3	3.8378	1.24711	1
	To a limited extent	13.5			
	To an average extent	8.1			
	To some extent	34.2			
	To a great extent	37.8			
D-High cost of raw materials		Percent	Mean-value	Std. Deviation	Ranking order
Valid	Not at all	11.9	3.0275	1.25062	6
	To a limited extent	24.8			
	To an average extent	27.5			
	To some extent	20.2			
	To a great extent	15.6			
E-Lack of access to finance or liquidity constraints		Percent	Mean-value	Std. Deviation	Ranking order
Valid	Not at all	3.6	3.5818	1.20687	3
	To a limited extent	20.0			
	To an average extent	20.0			
	To some extent	27.3			
	To a great extent	29.1			
F-Lack of saving facilities		Percent	Mean-value	Std. Deviation	Ranking order
Valid	Not at all	8.3	3.0370	1.19129	5
	To a limited extent	29.6			
	To an average extent	25.9			
	To some extent	22.2			
	To a great extent	13.9			
G-Uncompetitive market for fund		Percent	Mean-value	Std. Deviation	Ranking order
Valid	Not at all	12.8	3.6697	1.46600	2
	To a limited extent	11.9			
	To an average extent	15.6			
	To some extent	14.7			
	To a great extent	45.0			

It is worth mentioning that Table 6.13 has one more column of ranking order. This column was added to show which item imposed the most serious constraints for business activities, in ranking order, with one as the most constraining and seven as the least, by ranking the mean value of the each category. Government regulation (bureaucratic procedures, labour regulations etc) is the most restrictive item for SMEs business in the Kingdom from the entrepreneurs' point of view, yet the government has not positively intervened to the entrepreneurs' advantage.

6.10 SMEs IN OPERATION

Entrepreneurs in business operations would enhance their performance by sharing experiences. Hence the survey took this into consideration and formulated a special section containing thirteen questions, numbered from 32 to 44, to investigate particular financing issues related to SMEs.

Question 32 was about financing the initial start-up cost: 64.2% of the sample chose self-financing/ personal saving, 18.9% chose relatives, friends or inheritance, 8.4% chose partnership with relatives, 6.4% Islamic finance "no specification", only 1.1% conventional finance and 1.1% seeking loan.

Question 33 was aimed at exploring the initial start-up capital. As in table 6.14, the survey showed that 47.4% of the sample used the finance for fixed capital costs, 44.2% used the finance for operational costs, 6.3% chose 'other' and 2.1% utilised the funds for fixed capital costs and operational costs.

Question 34 was about the source of financing ongoing operations. The survey results as in table 6.14 illustrates that 46.2% of the sample financed ongoing operations by the retained earnings of the business, 18.3% by finance from individual money lenders, 9.7% by Islamic funds, 7.5% by trade/supplier credit, 6.5% by borrowing from relatives or friends, 4.3% by selling equity in the business and 2.2% by borrowing from banks.

Table 6.14 Method of Funding

P5Q32- How did you finance the initial start-up costs of the business? (You can choose more than one option)		Percent	Mean-value	Std. Deviation
Valid	Self financing /personal savings	64.2	1.84	1.690
	Relatives, friends or inheritance	18.9		
	Partnership with relatives	8.4		
	Conventional finance (please specify)	1.1		
	Islamic finance (please specify)	5.3		
	Islamic bank	1.1		
	Bank loan	1.1		
P5Q33- How did you use the initial start-up capital?		Percent	Mean-value	Std. Deviation
Valid	For the capital fixed cost	47.4	1.63	.700
	For operational cost	44.2		
	Other (please specify)	6.3		
	All of them	2.1		
P5Q34- What source do you use for financing your ongoing operation?		Percent	Mean-value	Std. Deviation
Valid	Retained earnings of the business	46.2	2.91	2.586
	Individual money lender	18.3		
	Trade/supplier credit	7.5		
	Sell equity in the business	4.3		
	Borrowing from the banks	2.2		
	Borrowing from relatives or friends	6.5		
	Islamic Fund (please specify)	7.5		
	Other (please specify)	4.3		
	Islamic bank	1.1		
	Financing operational business privately	1.1		
	Mark-up finance	1.1		

Difficulty in repaying the borrowed money is one of the problems encountered by borrowers and one which lenders wish to mitigate. In terms of repayment difficulties, the survey results in table 6.15 show that 52.7% of the sample had difficulty in making a repayment. The reasons were varied, but 12.7% of the sample stated the cause of the difficulties was the raw material, 12.7% stated it was because reduced sales profit due to poor market demand, 19.0% stated it was the misuse of funds where the fund was used for non-business reasons, 27.0% believed the business activity was not profitable and 23.8% chose 'other' without revealing the reason. Respondents specified their choice in equal percentage of 1.6% in three categories: lack of employees, tough competition and conflicts with partner.

Table 6.15 Difficulty of Repayment

P5Q35-Have you ever had any difficulty in making a payment?		Percent	Mean-value	Std. Deviation
Valid	Yes	52.7	1.4731	.50198
	No	47.3		
P5Q36-What caused your repayment difficulties?		Percent	Mean-value	Std. Deviation
Valid	The business activity was not profitable	27.0	3.06	1.786
	Used some of the fund for non-business reason	19.0		
	Poor market demand	12.7		
	Raw material problems	12.7		
	Other (please specify)	23.8		
	Lack of employees	1.6		
	Tough competition	1.6		
	Conflict with partner	1.6		

Question 37 was about the product cycle for the business and the survey results in table 6.16 shows the following results: in terms of average total sales (cash and credit), 71.3% of the sample reported up to 5 million riyals and 28.6% more than 5 million. For the question estimating the total cost of last product cycle, 77.3% of the sample answered 'up to 5 million' and 22.3% 'more than 5 million'. The duration of purchase input to the time of selling most of the product (per week) shows 82.6% of the sample needed up to 24 weeks and 17.4% needed 25 weeks and more (Table 6.16)

Table 6.16 Project Classification

P5Q37- What is your product's cycle for the business? A-How much is your average total sales (cash and credit)?		Percent	Mean-value	Std. Deviation
Valid	Up to 5 million riyal	71.4	1.2857	.46004
	More than 5 million riyal	28.6		
B-How much is your estimated total cost for your last product cycle?		Percent	Mean-value	Std. Deviation
Valid	Up to 5 million	77.3	1.2273	.42893
	More than 5 million	22.7		
C-How long does it takes from the time you purchase input to the time you sell most of the product? (Per week, if possible)		Percent	Mean-value	Std. Deviation
Valid	Up to 24 weeks	82.6	1.1739	.38755
	25 weeks and more	17.4		

In question 38 the survey attempted to classify entrepreneurs in different areas. As can be seen in table 6.17, for starting capital, 81.1% of the sample had less than million and 18.9% had from 1 million to 15 million. For current capital, 57.1% of the sample had less than million available for business, and 42.9% had from 1 to 15 million available for business. As far as expected employees were concerned, 83.0% of the sample had 20 or fewer employees for their business and 17.0% had 21 or more.

Table 6.17 Project Classification

P5Q38- What is your starting capital and what is your current capital and employees?			Percent	Mean-value	Std. Deviation
Valid	Starting capital (SAR)	Less than 1 million	81.1	1.1887	.39500
		1 million to 15 million	18.9		
	Current capital (SAR)	Less than 1 million	57.1	1.4286	.50210
		1 million to 15 million	42.9		
	Expected employees	20 and less	83.0	1.1702	.37988
		21 and more	17.0		

In Question 39 attempts were made to ask entrepreneurs if they had encountered any business problems with their partner: 87.4% of the sample had not faced any problems in this respect. The nature of problems with partners in Question 40 set out by some of the respondents were as follows: 7.2% faced managerial problems, 2.7% faced financial problems and 1.8% other problems such as part-time entrepreneurs or family business problems (Table 6.18)

Table 6.18 Interaction with Partner

P5Q39- Have you encountered any business problems with your partner?		Percent	Mean-value	Std. Deviation
Valid	Yes	12.6	1.8737	.33397
	No	87.4		
P5Q40-How would you specify these problems?		Percent	Mean-value	Std. Deviation
Valid	Managerial problems	7.2	3.71	.835
	Financial problems	2.7		
	Other Problems (part-time entrepreneurs, family business problems)	1.8		
	No comments	88.3		

Question 41 was about the collateral borrowers submitted to the capital provider. The results from the survey show in table 6.19, 40.0% of the borrowers in the sample involved personal collateral (another person to guarantee you), 30% chose 'other' with no further clarification, 11.1% post-dated cheques or promissory notes, 11.1% submitted the deed of the land or building 3.3% had involved business equipment and machinery and 4.4% could not obtain funds.

As was mentioned in chapter two, entrepreneurs have less knowledge with regard to the type of fund needed for their business, hence Saudi entrepreneurs are part of the worldwide SME trend. They rely on the most common form, and use the advantages of family/friends' support, which is still consistent in the Middle East, especially in Saudi Arabia.

Table 6.19 Kind of Collateral

P5Q41- What kind of collateral did you submit to the capital provider to get the fund?		Percent	Mean-value	Std. Deviation
Valid	Land and building	11.1	3.59	1.365
	Business equipment and machinery	3.3		
	Personal collateral (another person to guarantee you)	40.0		
	Signed post dated cheques or promissory notes	11.1		
	Other (please specify)	30.0		
	I couldn't get fund	4.4		

Question 42 was about intervention of a PLS partner in running the business, and the results in table 6.20 demonstrate that 80.4% of the sample opted for 'no'; thus, the financial intermediary partner did not intervene in running the business. Nevertheless, they had not collaborated with a PLS partner according to their choice in Question 8, so 18.5% chose 'yes' with no specifications and 1.1% had no partner.

Table 6.20 Intervention of the Financial Intermediary

P5Q42-Has the financial intermediary that you required from your PLS partner intervened in running the business?		Percent	Mean-value	Std. Deviation
Valid	Yes (please specify)	18.5	2.62	.782
	No partner	1.1		
	No	80.4		

Question 43 considered entrepreneurs' future strategies for the next three years. The result in table 6.21 showed that 57.6% of the sample had plans to enlarge the business, 20.7% planned to enter a new business, 15.2% wished to maintain the business size, 4.3% planned to reduce it and 2.2% choose 'other'.

Question 44 attempted to explore the financing of future investments and the findings in table 6.21 showed that 55.4% of the sample planned to use their personal savings/retained earnings of the business, 16.3% were going to acquire funds from Islamic banks, 12.0% will seek a partner, 7.6% chose 'other' and 6.5% will source a loan from a conventional bank. Moreover, 1.1% could not acquire funds and 1.1% would be funded by Alrajihi Bank, as it has recently launched a new SME department.

Table 6.21 Entrepreneurs Future Strategy

P5Q43-What is your future strategy for the next three years?		Percent	Mean-value	Std. Deviation
Valid	Maintain the same size of the business	15.2	2.3696	1.04532
	Enlarge the size of the business	57.6		
	Reduce the size of the business	4.3		
	Enter into new business	20.7		
	Other (please specify)	2.2		
P5Q44-How would you mainly plan to finance this future investment?		Percent	Mean-value	Std. Deviation
Valid	Personal savings/ retained earnings of the business	55.4	2.30	1.740
	Having loan from conventional bank	6.5		
	Having fund from Islamic bank (please specify)	16.3		
	Having a partner	12.0		
	Other (please specify)	7.6		
	Alrajihi bank	1.1		
	I couldn't get funds	1.1		

6.11 SAUDI ARABIA BUSINESS ENVIRONMENT

This section of the questionnaire concerned the Saudi business environment and the perceived impact on the SMEs financing. Here, the survey attempted to find out what entrepreneurs think of the facilities provided by the government and financial services available by banks and other financial companies. Also, the survey endeavored to examine the awareness of entrepreneurs about government policies and regulations, taking into consideration what entrepreneurs expect from capital providers and whether they reach entrepreneurs' expectations. Most of the questions in this section are based on a "five point Likert scale".

Question 45 was aimed at finding the preferences of participants on the potential intervention by the government, so as to encourage awareness of the importance of SMEs. The results are depicted in table 6.22, which shows that 42.3% of the sample strongly agreed with government intervention, 42.3% agreed, 9.0% did not know, 3.6% disagreed and only 2.7% strongly disagreed.

Another aspect of the situation that merits consideration is the business environment's capacity to absorb more SMEs and allow them a prosperous future. Therefore, when respondents were asked in Question 46 about their views on the capability of the Saudi financial system in terms of absorbing further SMEs, their responses were as follows: 43.2% agreed that the business sector in Saudi is capable of absorbing more

SMEs and guiding them to profitable prolonged life, 29.7% of the sample was more optimistic and answered 'strongly agree', 14.4% did not know, 7.2% 'disagreed' and 5.4% 'strongly disagreed' (Table 6.22).

The influence of the Saudi capital market 'Tadawal' cannot be neglected in terms of guaranteeing a financial and capital base. In Question 47 respondents were asked to share their views on investing more in shares than involving in SMEs. The results in table 6.22 show that 37.8% of the sample agreed on the influence of Tadawal in deterring their involvement in SMEs, 30.6% strongly agreed on the influence of Tadawal, 13.5% did not know, 9.9% disagreed and 8.1% strongly disagreed.

Question 48 attempted to reveal whether entrepreneurs were up-to-date with new government policies in relation to SMEs' financing through the Saudi Industrial Development Fund. In late 2004 the Saudi Industrial Development Fund, along with ten Saudi banks, established a programme to guarantee appropriate funding for SMEs. The results in table 6.22 show that 66.7% have no idea about the programme and only 33.3% did have such information.

Accordingly, in Question 49 entrepreneurs were asked to share their opinion about the programme; 54.0% of the sample did not know, 30.0% agreed, 13.0% strongly agreed and 3.0% disagreed (Table 6.22)

Table 6.22 Saudi Arabian Business Environment

P6Q45-Do you agree that the government should intervene to encourage the awareness of the importance of SMEs?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	2.7	4.1802	.93613
	Disagree	3.6		
	Don't know	9.0		
	Agree	42.3		
	Strongly agree	42.3		
P6Q46-Do you think the environment of the Saudi financial sector is capable of absorbing more SMEs and guide them to have long successful life?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	5.4	3.8468	1.09709
	Disagree	7.2		
	Don't know	14.4		
	Agree	43.2		
	Strongly agree	29.7		
P6Q47-In your opinion, does the Saudi capital market (Tadawal) attract you and other entrepreneurs to invest more in shares than involve in SMEs?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	8.1	3.7297	1.22805
	Disagree	9.9		
	Don't know	13.5		
	Agree	37.8		
	Strongly agree	30.6		
P6Q48-Do you know the Saudi Industrial Development Fund with ten of the Saudi banks established a programme to guarantee appropriate funding for SMEs?		Percent	Mean-value	Std. Deviation
Valid	Yes	33.3	1.6667	.47354
	No	66.7		
P6Q49-What is your opinion about this program (to guarantee appropriate funding for SMEs)?		Percent	Mean-value	Std. Deviation
Valid	Disagree	3.0	3.5300	.75819
	Don't know	54.0		
	Agree	30.0		
	Strongly agree	13.0		

In Question 50, respondents were asked about their expectations of the government with reference to developing the SME sector in Saudi Arabia. The results in table 6.23 showed 28.2% of the sample expected financial support, 22.7% expected technical support, 6.4% answered 'other' with no clarification, 15.5% expected accessibility to the capital market and 9.1% managerial support. 17% specified their expectation, 14.5% chose all of them, 2.7% needed facilitation from the government and 0.9% had no support.

Broadly, Saudi banks have been criticised by their clients and therefore did not come live up to expectations. Therefore, in Question 51 entrepreneurs were asked to share their views about Saudi banks in terms of financing SMEs: "are Saudi banks doing their best for their SMEs customers?" The result in table 6.23 demonstrates that 46.8% of the sample disapproved of the performance of Saudi banks toward SMEs,

20.7% strongly disapproved, 15.3% did not know, 12.6% approved their performance and 4.5% strongly approved.

Table 6.23 Expectation from Government and Saudi Banks

P6Q50-What would you expect from the government in order to develop the SMEs sector in Saudi Arabia?		Percent	Mean-value	Std. Deviation
Valid	Technical support	22.7	2.30	1.740
	Financial support	28.2		
	Managerial support	9.1		
	Accessibility to the capital market	15.5		
	Other (please specify)	6.4		
	Facilitate government procedure	2.7		
	All of them	14.5		
	I don't have any support	,9		
P6Q51-Do you think Saudi banks in terms of financing SMEs are doing their best for their customers?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	20.7	2.3333	1.08153
	Disagree	46.8		
	Don't know	15.3		
	Agree	12.6		
	Strongly agree	4.5		

Question 52 was a ranking preference question wherein the entrepreneurs were provided with a number of reasons as to why the Saudi banks were not inclined to finance SMEs; the respondents were asked to rank these factors according to the importance of each. As the findings in (table 6.25) show, these ranking were as follows:

(A) The Potential Risk Involved in the Contract: 24.8% of the sample chose the potential risk involved in the contract as a primary cause, 21.1% as a second cause, 33.9% as a third cause and 20.2% as a fourth cause.

B) Not attractive for SMEs: 31.8% of the sample chose SMEs being not attractive as the primary reason, 20.0% as a second, 32.7% as a third and 15.5% as a fourth reason.

(C) Less competition: 29.4% of the sample chose less competition as the primary cause, 34.9% as a second cause, 16.5% as a third preference and 18.3% as a fourth cause.

(D) The banks' preference to control the management of the project: 18.2% of the sample chose the bank prefers to control the management of the project as a primary cause, 22.7% as a second cause, 14.5% as a third cause and 44.5% as a fourth cause.

Table 6.24 Preference forUsing PLS

P6Q52- In your opinion, why do banks in Saudi Arabia not prefer using PLS to finance SMEs, (Please rank the options, 1 being the most preferred, and 5 is the least preferred)				
The Potential Risk Involved in the Contract		Percent	Mean-value	Std. Deviation
Valid	First Preference	24.8	2.4954	1.07689
	Second Preference	21.1		
	Third Preference	33.9		
	Fourth Preference	20.2		
Not attractive for SMEs		Percent	Mean-value	Std. Deviation
Valid	First Preference	31.8	2.3182	1.08308
	Second Preference	20.0		
	Third Preference	32.7		
	Fourth Preference	15.5		
Less competition		Percent	Mean-value	Std. Deviation
Valid	First Preference	29.4	2.2661	1.10254
	Second Preference	34.9		
	Third Preference	16.5		
	Fourth Preference	18.3		
The bank prefers to control the management of the project		Percent	Mean-value	Std. Deviation
Valid	First Preference	18.2	2.8545	1.17962
	Second Preference	22.7		
	Third Preference	14.5		
	Fourth Preference	44.5		

In the last four questions in this section, the study attempted to find out whether the banks are the appropriate source of financing SMEs and what the appropriate product is for them. The study asked entrepreneurs in Question 53 about appropriation of financing SMEs through PLS by banks. The findings in table 6.25 show that 30.9% of the sample did not know, 25.5% agreed that a bank is the appropriate source of financing SMEs through PLS, 25.5% disagreed, 12.7% strongly disagreed and 5.5% strongly agreed.

Question 54 aimed at exploring the less well-established Saudi venture capital market leading SME investors to request funds from banks. The study showed 43.2% of the sample agreed with the potential importance of venture capital, 36.9% did not know, 11.7% disagreed, 4.5% strongly disagreed and 3.6% strongly agreed (Table 6.24).

In Question 55 the study asked whether the potential use of prospective financers of PLS would be more effectively conducted by delegating responsibilities to financial

institutions supervised by Saudi Arabian Monetary Agency (SAMA). The study ascertained that 36.9% of the sample agreed to have PLS practised by delegated institutions, 32.4% did not know, 18.0% strongly agreed, 11.7% disagreed and 0.9% strongly disagreed. The findings are depicted in table 6.24.

Table 6.25 Appropriate Source of Fund

P6Q53- Do you think banks are the appropriate financial institution to finance SMEs through PLS mode of financing?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	12.7	2.8545	1.10741
	Disagree	25.5		
	Don't know	30.9		
	Agree	25.5		
	Strongly agree	5.5		
P6Q54- Do you think the less well-established of the venture capital in the Saudi financial market lead the SMEs investors to request funds from banks?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	4.5	3.2973	.89030
	Disagree	11.7		
	Don't know	36.9		
	Agree	43.2		
	Strongly agree	3.6		
P6Q55- Do you agree that prospective financers of PLS will be better-off practising by delegating to institutions supervised by SAMA?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	.9	3.5946	.94752
	Disagree	11.7		
	Don't know	32.4		
	Agree	36.9		
	Strongly agree	18.0		
P6Q56- Which financial institution is more compatible in terms of using PLS as a mode of financing SMEs?		Percent	Mean-value	Std. Deviation
Valid	Islamic banks	46.8	2.6606	1.88670
	Conventional banks	5.5		
	Islamic financial institutions	21.1		
	Conventional financial institutions	1.8		
	Government development agencies	11.9		
	Venture capital company	11.9		
	Other (please specify)	.9		

In Question 56 the study queried the compatibility of financial institutions in terms of using PLS as a mode of financing SMEs. The analysis in table 6.25 shows that 46.8% of the sample believed that Islamic banks were more compatible, 21.1% Islamic financial institutions, 11.9% government development agencies, 11.9% venture capital companies, 5.5% conventional banks, 1.8% conventional financial institutions and 0.9% chose 'other' without clarification.

6.12 FUTURE OF PLS

In the last part of the survey entrepreneurs who have utilised PLS as financing, shared their views regarding the performance of PLS for that task. In responding to Question 57 in table 6.26, 49.5% of those who practised PLS were said to be happy with it, while 50.5% of them were not content.

Consequently, venture capital companies might be the desired replacement for other financial institutions in term of financing SMEs in the Kingdom of Saudi Arabia. Therefore, the respondents were asked whether the venture capital companies are more compatible with financing SMEs. Table 6.26 shows respondents' views to Question 58, where 32.7% of the sample agreed to the compatibility of venture capital in financing SMEs, 31.8% did not know, 24.5% disagreed, 6.4% strongly agreed and 4.5% strongly disagreed.

Table 6.26 PLS Experience

P7Q57- If you have financed your business with PLS, please state if you are contented with it?		Percent	Mean-value	Std. Deviation
Valid	Yes	49.5	1.5047	.50233
	No	50.5		
P7Q58- Do you think venture capital companies are more compatible to finance SMEs than other financial institutions?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	4.5	3.1182	1.00212
	Disagree	24.5		
	Don't know	31.8		
	Agree	32.7		
	Strongly agree	6.4		

The last five questions in this section were open-ended questions, where respondents expressed their views freely, so those qualitative questions were carefully converted and coded into quantitative meanings. This was an opportunity to give fund demanders a chance to state their requirements, in the belief that entrepreneurs are the representatives of demands for funds. Question 59 was about prospective PLS users' in terms of financing SMEs. As is clear in table 6.27, it is evident that entrepreneurs are searching for an investment mechanism to include the capacity to provide integrated support or partial support, financial support, managerial support, technical support and other kinds of facilitation. Respondents mentioned that this support must be Shariah approved and supervised, so the researcher classified this under Islamic

venture capital; 21.6% of the sample opted for Islamic venture capital, 0.9% had recommended government support and 3.6% desired a diminution of conditions set by the capital provider, but 73.9% had no comment. (Table 6.27)

Question 60 sought to clarify the abilities of PLS prospectors in terms of providing appropriate methods to finance SMEs. The results show that 77.5% of the sample had no comment, 12.6% had recommended Islamic venture capital as they believed that PLS prospectors would provide it, 6.3% of the sample was concerned prioritised the weight of the feasibility study, and four equal groups of 0.9% mentioned SMEs incubation, government support, reduced conditions set by the capital providers and non-profitable support (Table 6.27).

Table 6.27 Expectation from Prospectors of PLS

P7Q59- What would you expect from prospectors of PLS in term of financing SMEs?		Percent	Mean-value	Std. Deviation
Valid	Islamic Venture Capital	21.6	3.30	1.240
	Government Support	.9		
	Reduce conditions set by the capital providers	3.6		
	No comments	73.9		
P7Q60- How can prospectors of PLS provide an appropriate method to finance SMEs?		Percent	Mean-value	Std. Deviation
Valid	Giving full concentration to the feasibility study	6.3	5.90	2.128
	Islamic venture capital	12.6		
	SMEs incubation	.9		
	Government Support	.9		
	Reduce conditions set by the capital providers	.9		
	Non-profitable support	.9		
	No comments	77.5		

Question 61 attempted to encourage the respondents to come up with a new financial product to finance SME, thus their recommendations were varied, as can be seen in table 6.28. Entrepreneurs tended to prefer support by the state or oversight by the state. As a result, two equal groups of 4.5% stated government support and Islamic venture capital, 0.9% of the sample stated specialised SME banks and 7.2% answered 'don't know'. The highest percentage of 82.9% represented the respondents who had no comment.

For tackling the obstacles facing SMEs in Saudi Arabia in Question 62 entrepreneurs were asked to express their recommendations under the permissibility of Islamic financial law. The research found that 3.6% chose specialised government mutual funding, 1.8% innovation, 10.8% government involvement, 6.8% Islamic venture

capital, 2.7% 'lack of honesty and enough attention', 0.9% 'don't know' and 73.9% had 'no comments' (see table 6.28).

Table 6.28 Obstacles Facing SME in Saudi

P7Q61- If you were to be asked to think of new Islamic financial products for funding SMEs in Saudi Arabia, what would you come up with?		Percent	Mean-value	Std. Deviation
Valid	Government Support	4.5	4.59	1.039
	Islamic Venture Capital	4.5		
	Specialised SMEs bank	.9		
	Don't know	7.2		
	No comments	82.9		
P7Q62- One of the obstacles facing SMEs in Saudi Arabia is funding, what is your recommendation in order to tackle this problem under the permissibility of Islamic financial law?		Percent	Mean-value	Std. Deviation
Valid	Specialised Government mutual fund	3.6	6.01	1.791
	Innovation	1.8		
	Government involvement	10.8		
	Islamic venture capital	6.3		
	Lack of honesty & enough attention	2.7		
	Don't Know	.9		
	No comments	73.9		

The last question, 63, asked respondents to express their suggestions as to how SMEs could provide better services and finance under Islamic law. These suggestions are grouped in accordance with the most important points of the respondent's perspectives and are depicted in table 6.29. So 1.8% suggested innovation and encouraging support, 5.4% Islamic venture capital, 2.7% government support, 0.9% definition of SME for better treatment, and 89.2% had no comment.

Table 6.29 Sharing Opinion

P7Q63-Please give your suggestions as to how the SMEs would have better services and finance under the Islamic law?		Percent	Mean-value	Std. Deviation
Valid	Innovation and encouraging support	1.8	4.70	.900
	Islamic Venture Capital	5.4		
	Government Support	2.7		
	Definition	.9		
	No comment	89.2		

6.13 CONCLUSION

As is clear from the analysis, the majority of the respondents in the sample can be classified as small businessmen. It is believed that entrepreneurs should have some degree of knowledge and be aware of the need to develop themselves in related business areas. Respondents agreed that PLS is more suitable for SMEs, although a high percentage of them had not practised it, but believed it to be more suitable

regardless. As has also been shown, respondents placed the role of religion at the top of their priority list even when compliance would add cost to the transaction. Banks and other financial institutions in the Kingdom of Saudi Arabia, which provide Islamic financial products, have become conscious of this emphasis in recent years.

Moreover, there is clear evidence that entrepreneurs are looking for portfolio investment to be integrated with the capacity to provide integrated support or partial support, such as financial, administrative or assistance with the feasibility study, which can be accomplished under venture capital concept. But, as the findings indicate, there were also calls for guarantees and the provision of feasibility studies at a reasonable cost. Therefore, special investment portfolios may not be the only objective in achieving the highest profit; it has to be understood that a product also carries with it investment profit and social benefits.

CHAPTER SEVEN
PERCEPTIONS ON SAUDI SME BUSINESS AND FINANCIAL ENVIRONMENT: EMPIRICAL ANALYSIS

7.1 INTRODUCTION

This second empirical chapter consists of four parts. The first part discusses entrepreneurs' awareness of the Islamic concept of profit and loss sharing (PLS); the financial awareness of entrepreneurs in the preparatory stage of their business; the modes of financing and lastly in this part, entrepreneurs' awareness of the Saudi Arabian government funding of Small and Medium Enterprise (SMEs). The second part examines attitudes toward partnership, while the third investigates the potentiality of Islamic banking and Islamic financial institutions for financing SME, and the last part in this chapter considers the Saudi Arabian SME environment. Certain questions have been chosen to be cross-tabbed with some demographic factors such as entrepreneurial categories and experience in order to investigate the above mentioned parts, addressed in the four parts of this survey.

7.2 AWARENESS OF BUSINESS

Table 7.1 presents the results of the cross-tabulation analysis of Q5 (Have you ever used Mudharabah or Musharakah when you deal with capital providers?) with the entrepreneurial categories, to determine the stage at which the business participants used Islamic PLS financing. As the results show, only limited usage of PLS is found: 80.4% of entrepreneurs planning to start new business have never used PLS with capital providers; 82.9% of entrepreneurs with an operating business have never used PLS with capital providers; 92.9% of the entrepreneur with an operating business and full-time government job have never dealt with capital providers on PLS bases; and 75% of entrepreneurs with an operating business and full-time private job also have never used PLS when they needed financing. The results suggest that PLS as a mode

of financing is not being delivered effectively to the majority of fund-seekers at each stage of entrepreneurial categories status groups.

Table 7.1 Entrepreneurial Categories * P1Q5 PLS Modes of Finance Cross Tabulation

Have you ever used Mudharabah or Musharakah when you deal with capital providers?				
Entrepreneurial Categories		Yes	No	Total
Entrepreneur planning to start a new business	Count	9	37	46
	% Row	19.6%	80.4%	100.0%
	%Column	45.0%	40.7%	41.4%
Entrepreneur with an operating business	Count	6	29	35
	% Row	17.1%	82.9%	100.0%
	%Column	30.0%	31.9%	31.5%
Entrepreneur with an operating business and full-time government job	Count	1	13	14
	% Row	7.1%	92.9%	100.0%
	%Column	5.0%	14.3%	12.6%
Entrepreneur with an operating business and full-time private job	Count	2	6	8
	% Row	25.0%	75.0%	100.0%
	%Column	10.0%	6.6%	7.2%
Other (please specify)	Count	2	6	8
	% Row	25.0%	75.0%	100.0%
	%Column	10.0%	6.6%	7.2%
Total	Count	20	91	111
	% Row	18.0%	82.0%	100.0%
	%Column	100.0%	100.0%	100.0%

In the next stage an attempt was made to cross-tabulate the stages and nature of the business with Q6 (Do you think profit and loss-sharing contract (PLS) is more suitable for SME?), the results of which are depicted in Table 7.2. It is clear that the majorities of entrepreneurs in the sample have never used PLS with capital providers, but have a high expectation of PLS as a mode of financing SMEs. The result of cross-tabulation shows that 52.2% of entrepreneur planning to start a new business agree and 8.7% strongly agree that PLS is more suitable for SME. 45.7% of entrepreneurs with an operating business agree and 22.9% of them strongly agree with the suitability of PLS for financing SMEs. 57.1% of those with an operating business and full-time government jobs agree and 28.6% of them strongly agree that PLS is more appropriate for finance of SMEs. Entrepreneurs with an operating business and full-time private job also have high expectations for the suitability of PLS as a mode of financing SMEs; as the results show that 50% of them agree and 37.5% strongly agree.

Table 7.2 Entrepreneurial Categories * P1Q6 PLS Suitable Cross Tabulation

Do you think profit and loss-sharing contract (PLS) is more suitable for SMEs?							
Entrepreneurial Categories		Strongly disagree	Disagree	Don't know	Agree	Strongly agree	Total
Entrepreneur planning to start a new business	Count	3	8	7	24	4	46
	% Row	6.5%	17.4%	15.2%	52.2%	8.7%	100.0%
	%Column	100.0%	80.0%	33.3%	42.1%	20.0%	41.4%
Entrepreneur with an operating business	Count	0	2	9	16	8	35
	% Row	.0%	5.7%	25.7%	45.7%	22.9%	100.0%
	%Column	.0%	20.0%	42.9%	28.1%	40.0%	31.5%
Entrepreneur with an operating business and full-time government job	Count	0	0	2	8	4	14
	% Row	.0%	.0%	14.3%	57.1%	28.6%	100.0%
	%Column	.0%	.0%	9.5%	14.0%	20.0%	12.6%
Entrepreneur with an operating business and full-time private job	Count	0	0	1	4	3	8
	% Row	.0%	.0%	12.5%	50.0%	37.5%	100.0%
	%Column	.0%	.0%	4.8%	7.0%	15.0%	7.2%
Other (please specify)	Count	0	0	2	5	1	8
	% Row	.0%	.0%	25.0%	62.5%	12.5%	100.0%
	%Column	.0%	.0%	9.5%	8.8%	5.0%	7.2%
Total	Count	3	10	21	57	20	111
	% Row	2.7%	9.0%	18.9%	51.4%	18.0%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

While Q5 (Do you think profit and loss-sharing contract (PLS) is more suitable for SME?) above cross-tabulated with the stage of entrepreneurial categories in order to test the usage of PLS with capital providers, in this section stage of entrepreneurial categories and experience is cross-tabbed with Q 8 (Do you or have you worked with Islamic banks for a PLS-oriented financing?) to test the achievement of Islamic banks as one of the PLS capital providers. The results in Table 7.3 show that 84.8% of entrepreneurs planning to start a new business have not worked with Islamic banks for a PLS-oriented financing; 82.9% of entrepreneurs with an operating business never used PLS-oriented finance with Islamic banks; 57.1% of entrepreneurs with an operating business and a full-time government job also never experienced PLS-oriented finance with Islamic banks and 87.5 % of entrepreneurs with an operating business and full-time private job never used PLS-oriented finance through Islamic banks.

Table 7.3 Entrepreneurial Categories * P1Q8 PLS-Oriented Financing Cross Tabulation

Do you or have you worked with Islamic banks for a PLS-oriented financing?				
Entrepreneurial Categories		Yes	No	Total
Entrepreneur planning to start a new business	Count	7	39	46
	% Row	15.2%	84.8%.	100.0%
	%Column	30.4%	44.3%	41.4%
Entrepreneur with an operating business	Count	6	29	35
	% Row	17.1%	82.9%	100.0%
	%Column	26.1%	33.0%	31.5%
Entrepreneur with an operating business and full-time government job	Count	6	8	14
	% Row	42.9%	57.1%	100.0%
	%Column	26.1%	9.1%	12.6%
Entrepreneur with an operating business and full-time private job	Count	1	7	8
	% Row	12.5%	87.5%	100.0%
	%Column	4.3%	8.0%	7.2%
Other (please specify)	Count	3	5	8
	% Row	37.5%	62.5%	100.0%
	%Column	13.0%	5.7%	7.2%
Total	Count	23	88	111
	% Row	20.7%	79.3%	100.0%
	%Column	100.0%	100.0%	100.0%

In Table 7.4 Q8 (Do you or have you worked with Islamic banks for a PLS-oriented financing?) was cross tabulated with the extent of business experience to test the influence of entrepreneurs' experience on working with PLS financing alongside an Islamic bank. The results demonstrate that 82.4% of entrepreneurs with no experience have never used PLS-oriented financing with Islamic banks; 78.1% of entrepreneurs with working experience from 1 to 5 years have never used PLS-oriented financing with Islamic banks; 75.8% of entrepreneurs with working experience from 6 to 10 years have never used PLS-oriented financing with Islamic banks. 100% of the business experience group of 11 to 15 years have never worked with Islamic banks for a PLS-oriented financing. Lastly, 71.4% of entrepreneurs with more than 15 years of experience have never worked with Islamic banks for a PLS-oriented financing.

Table 7.4 Experience * P1Q8 PLS-Oriented Financing Cross Tabulation

Do you or have you worked with Islamic banks for a PLS-oriented financing?				
Working Experience		Yes	No	Total
No experience	Count	6	28	34
	% Row	17.6%	82.4%	100.0%
	%Column	26.1%	31.8%	30.6%
From 1 to 5 years	Count	7	25	32
	% Row	21.9%	78.1%	100.0%
	%Column	30.4%	28.4%	28.8%
From 6 to 10 years	Count	8	25	33
	% Row	24.2%	75.8%	100.0%
	%Column	34.8%	28.4%	29.7%
From 11 to 15 years	Count	0	5	5
	% Row	.0%	100.0%	100.0%
	%Column	.0%	5.7%	4.5%
More than 15 years	Count	2	5	7
	% Row	28.6%	71.4%	100.0%
	%Column	8.7%	5.7%	6.3%
Total	Count	23	88	111
	% Row	20.7%	79.3%	100.0%
	%Column	100.0%	100.0%	100.0%

In the next section, business experience was cross-tabulated with Q57 (If you have financed your business with PLS, please state if you are contented with it?) with the objective of quantifying the satisfaction of the PLS users. The results in table 7.5 show that entrepreneurs who have financed their business through PLS are quite contented with the result. 63.6% of entrepreneurs with no experience are satisfied with PLS; 53.3% of entrepreneurs with working experience from 1 to 5 years are not satisfied with PLS. 50% of entrepreneurs with working experience from 6 to 10 years are happy with PLS and 50% are not happy with it. 100% of entrepreneurs with working experience from 11 to 15 years are not contented with being financed through PLS. Lastly, 71.4% of entrepreneurs with more than 15 years experience are dissatisfied with using PLS as a mode of financing their business.

Table 7.5 Experience * P7Q57 Contented with PLS Cross Tabulation

If you have financed your business with PLS, please state if you are contented with it?				
Working Experience		Yes	No	Total
No experience	Count	21	12	33
	% Row	63.6%	36.4%	100.0%
	%Column	39.6%	22.2%	30.8%
From 1 to 5 years	Count	14	16	30
	% Row	46.7%	53.3%	100.0%
	%Column	26.4%	29.6%	28.0%
From 6 to 10 years	Count	16	16	32
	% Row	50.0%	50.0%	100.0%
	%Column	30.2%	29.6%	29.9%
From 11 to 15 years	Count	0	5	5
	% Row	.0%	100.0%	100.0%
	%Column	.0%	9.3%	4.7%
More than 15 years	Count	2	5	7
	% Row	28.6%	71.4%	100.0%
	%Column	3.8%	9.3%	6.5%
Total	Count	53	54	107
	% Row	49.5%	50.5%	100.0%
	%Column	100.0%	100.0%	100.0%

7.2.1 Financial Awareness

Table 7.6 demonstrates the results of cross-tabulation between stages of business and Q7 (Do you know what kind of financing is more appropriate for your business?) namely awareness about the type of financing needs and the various financing options to test the financial awareness of entrepreneurs in preparatory stages of their business. The results illustrate that 33.3% of entrepreneurs planning to start a new business knew what kind of financing is more appropriate for their business, while 13.3% of this group believe that PLS is a more appropriate method of finance for their business. Out of the entrepreneurs with an operating business, 48.5% knew the kind of finance they need, as 11.4% believed they required mark-up finance and 11.4% believed they needed financial support only. Entrepreneurs with an operating business and full-time government job are more aware of the kind of finance needed than the previous two categories, as 64.1% of them knew which method of funding is more appropriate for their business. 62.5% of entrepreneurs with an operating business and a full-time private job assumed they knew the kind of finance that suited their purposes, with 25% in this category seeking PLS.

Table 7.6 Entrepreneurial Categories * P1Q7 Kind of Finance Cross Tabulation

Entrepreneurial Categories (Q68)		P1Q07 Do you know what kind of financing is more appropriate for your business?							
		Yes, please specify	Mark-up finance	PLS	Financial Support only	Government Support	Personal fund	No	Total
Entrepreneur planning to start a new business	Count	6	3	6	0	0	1	29	45
	% Row	13.3%	6.7%	13.3%	.0%	.0%	2.2%	64.4%	100.0%
	%Column	27.3%	33.3%	42.9%	.0%	.0%	100.0%	50.0%	40.9%
Entrepreneur with an operating business	Count	7	4	2	4	0	0	18	35
	% Row	20.0%	11.4%	5.7%	11.4%	.0%	.0%	51.4%	100.0%
	%Column	31.8%	44.4%	14.3%	80.0%	.0%	.0%	31.0%	31.8%
Entrepreneur with an operating business and full-time government job	Count	5	1	1	1	1	0	5	14
	% Row	35.7%	7.1%	7.1%	7.1%	7.1%	.0%	35.7%	100.0%
	%Column	22.7%	11.1%	7.1%	20.0%	100.0%	.0%	8.6%	12.7%
Entrepreneur with an operating business and full-time private job	Count	3	0	2	0	0	0	3	8
	% Row	37.5%	.0%	25.0%	.0%	.0%	.0%	37.5%	100.0%
	%Column	13.6%	.0%	14.3%	.0%	.0%	.0%	5.2%	7.3%
Other (please specify)	Count	1	1	3	0	0	0	3	8
	% Row	12.5%	12.5%	37.5%	.0%	.0%	.0%	37.5%	100.0%
	%Column	4.5%	11.1%	21.4%	.0%	.0%	.0%	5.2%	7.3%
Total	Count	22	9	14	5	1	1	58	110
	% Row	20.0%	8.2%	12.7%	4.5%	.9%	.9%	52.7%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

7.2.2 Saudi business attitude

In order to examine the professional business attitudes of the finance seekers, business experience was cross tabulated with Q21 (When you apply for funds, do you provide a business plan (feasibility study) to the capital provider?), as in this preliminary stage of fund-seeking, entrepreneurs should have planned their projects. The results are depicted in table 7.7, which shows that 73.5% of entrepreneurs with no experience produced a feasibility study in applying for funding; 56.3% of entrepreneurs with working experience from 1 to 5 years have a feasibility study; 63.6% of entrepreneurs with working experience from 6 to 10 years have a business plan. 80% of entrepreneurs with working experience from 11 to 15 years planned their business

before seeking funding and 71.4% of entrepreneurs with more than 15 years working experience have their feasibility study prepared.

Table 7.7 Experience * P4Q21 Feasibility Study Cross Tabulation

When you apply for funds, do you provide a business plan (feasibility study) to the capital provider?				
Working Experience		Yes	No	Total
No experience	Count	25	9	34
	% Row	73.5%	26.5%	100.0%
	%Column	34.2%	23.7%	30.6%
From 1 to 5 years	Count	18	14	32
	% Row	56.3%	43.8%	100.0%
	%Column	24.7%	36.8%	28.8%
From 6 to 10 years	Count	21	12	33
	% Row	63.6%	36.4%	100.0%
	%Column	28.8%	31.6%	29.7%
From 11 to 15 years	Count	4	1	5
	% Row	80.0%	20.0%	100.0%
	%Column	5.5%	2.6%	4.5%
More than 15 years	Count	5	2	7
	% Row	71.4%	28.6%	100.0%
	%Column	6.8%	5.3%	6.3%
Total	Count	73	38	111
	% Row	65.8%	34.2%	100.0%
	%Column	100.0%	100.0%	100.0%

In Table 7.8 business experience and Q22 (Did you audit your business plan by external parties?) were cross tabulated to view the professional attitude of finance seekers. Auditing the entrepreneurs' feasibility study is not common, as the results in table 7.8 evidence: 39.4% of entrepreneurs with no experience had their feasibility study audited by external parties; 23.3 % of entrepreneurs with working experience from 1 to 5 years; and 37.9% of entrepreneurs with working experience from 6 to 10 years respectively had their feasibility study audited by external parties. The fourth category of entrepreneurs were those with working experience from 11 to 15 years and only 20% of these had their business plan audited by external parties. The last category (entrepreneurs with more than 15 years experience) has the highest percentage of external auditing, namely 42.9%.

Table 7.8 Experience * P4Q22 Auditing a Business Plan Cross Tabulation

Did you audit your business plan by external parties?				
Working Experience		Yes	No	Total
No experience	Count	13	20	33
	% Row	39.4%	60.6%	100.0%
	%Column	37.1%	29.0%	31.7%
From 1 to 5 years	Count	7	23	30
	% Row	23.3%	76.7%	100.0%
	%Column	20.0%	33.3%	28.8%
From 6 to 10 years	Count	11	18	29
	% Row	37.9%	62.1%	100.0%
	%Column	31.4%	26.1%	27.9%
From 11 to 15 years	Count	1	4	5
	% Row	20.0%	80.0%	100.0%
	%Column	2.9%	5.8%	4.8%
More than 15 years	Count	3	4	7
	% Row	42.9%	57.1%	100.0%
	%Column	8.6%	5.8%	. 6.7%
Total	Count	35	69	104
	% Row	33.7%	66.3%	100.0%
	%Column	100.0%	100.0%	100.0%

Business experience was cross-tabulated with Q24 (How would you rank your business risk?), as letting entrepreneurs rank their business risk would give an indication of the presence of awareness as to the type of funding they may wish to secure. The results in table 7.9 show that 50% of entrepreneurs with no experience believed that their business was of normal risk; 40.6% of entrepreneurs with experience from 1 to 5 years stated their business held a normal risk. Furthermore, entrepreneurs with experience from 6 to 10 years are mainly divided into two categories, 42.4% stated that their product is at a normal risk and 33.3% believed that they have a less risky project. 40% of entrepreneurs with working experience from 11 to 15 years consider their project to be a normal risk one, while another 40% in this category rank their business as having no risk. 40.99% of entrepreneurs with more than 15 years working experience judge their project as a less risky project.

Table 7.9 Experience * P4Q24 Business Risk Cross Tabulation

How would you rank your business risk?

Working Experience		Extremely Risky	Risky	Normal Risk	Less Risky	No Risk	Total
No experience	Count	3	7	17	4	3	34
	% Row	8.8%	20.6%	50.0%	11.8%	8.8%	100.0%
	%Column	50.0%	38.9%	36.2%	14.8%	23.1%	30.6%
From 1 to 5 years	Count	0	8	13	8	3	32
	% Row	.0%	25.0%	40.6%	25.0%	9.4%	100.0%
	%Column	.0%	44.4%	27.7%	29.6%	23.1%	28.8%
From 6 to 10 years	Count	2	3	14	11	3	33
	% Row	6.1%	9.1%	42.4%	33.3%	9.1%	100.0%
	%Column	33.3%	16.7%	29.8%	40.7%	23.1%	29.7%
From 11 to 15 years	Count	0	0	2	1	2	5
	% Row	.0%	.0%	40.0%	20.0%	40.0%	100.0%
	%Column	.0%	.0%	4.3%	3.7%	15.4%	4.5%
More than 15 years	Count	1	0	1	3	2	7
	% Row	14.3%	.0%	14.3%	42.9%	28.6%	100.0%
	%Column	16.7%	.0%	2.1%	11.1%	15.4%	6.3%
Total	Count	6	18	47	27	13	111
	% Row	5.4%	16.2%	42.3%	24.3%	11.7%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Stages of the business were cross-tabulated with Q25 (How would you classify your project?) to classify their project in terms of duration. The answers in table 7.10 generally indicate that businesses were regarded as medium to long-term investments. 43.5% of entrepreneurs were planning to start a new business as a medium-term investment and 39.1% of them as long-term investment; 45.7% of entrepreneurs with an operating business regarded as a medium-term investment and 42.9% in the same category view it as long-term investment. Equally 42.9% entrepreneurs with an operating business and a full-time government job consider their business to be between medium and long-term investments, respectively. 37.5% of the entrepreneurs with an operating business and a full-time private sector job described their project as long and medium-term investment respectively.

Table 7.10 Entrepreneurial Categories * P4Q25 Nature of Projects Cross Tabulation

How would you classify your project?					
Entrepreneurial Categories		Long term investment	Medium term investment	Short term investment	Total
Entrepreneur planning to start a new business	Count	18	20	8	46
	% Row	39.1%	43.5%	17.4%	100.0%
	%Column	39.1%	43.5%	42.1%	41.4%
Entrepreneur with an operating business	Count	15	16	4	35
	% Row	42.9%	45.7%	11.4%	100.0%
	%Column	32.6%	34.8%	21.1%	31.5%
Entrepreneur with an operating business and full-time government job	Count	6	6	2	14
	% Row	42.9%	42.9%	14.3%	100.0%
	%Column	13.0%	13.0%	10.5%	12.6%
Entrepreneur with an operating business and full-time private job	Count	3	3	2	8
	% Row	37.5%	37.5%	25.0%	100.0%
	%Column	6.5%	6.5%	10.5%	7.2%
Other (please specify)	Count	4	1	3	8
	% Row	50.0%	12.5%	37.5%	100.0%
	%Column	8.7%	2.2%	15.8%	7.2%
Total	Count	46	46	19	111
	% Row	41.4%	41.4%	17.1%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%

7.2.3 Limitation of Awareness and Underdevelopment of the Saudi Financial System

Stage and nature of the business were cross-tabulated with Q30 (What form of financial return would you prefer on your capital investment?) to find whether stage and nature of business has any impact of the expected return. The results in table 7.11 illustrate that entrepreneurs preferred financial returns on capital investment. Accordingly, 35.6% of entrepreneurs planning to start a new business prefer entirely long-term capital gains and 37.8% of them prefer part capital gains and part current dividends. For entrepreneurs with an operating business, 34.3% of them prefer part capital gains, part current dividends. Furthermore, 35.7% of entrepreneurs with an operating business and full-time government job favour exclusively long-term capital gains. Entrepreneurs with an operating business and a full-time private sector job record equal percentages of 50% for solely long-term capital gains and part capital gains, part current dividends, respectively.

Table 7.11 Entrepreneurial Categories * P4Q30 Financial Return Cross Tabulation

What form of financial return would you prefer on your capital investment?							
Entrepreneurial Categories		Entirely long-term capital gains	Mostly long-term capital gains	Part capital gains, part current dividends	Mostly current dividends	Entirely current dividends	Total
Entrepreneur planning to start a new business	Count	16	7	17	2	3	45
	% Row	35.6%	15.6%	37.8%	4.4%	6.7%	100.0%
	%Column	45.7%	46.7%	41.5%	28.6%	27.3%	41.3%
Entrepreneur with an operating business	Count	9	7	12	3	4	35
	% Row	25.7%	20.0%	34.3%	8.6%	11.4%	100.0%
	%Column	25.7%	46.7%	29.3%	42.9%	36.4%	32.1%
Entrepreneur with an operating business and full-time government	Count	5	0	4	2	3	14
	% Row	35.7%	.0%	28.6%	14.3%	21.4%	100.0%
	%Column	14.3%	.0%	9.8%	28.6%	27.3%	12.8%
Entrepreneur with an operating business and full-time private	Count	4	0	4	0	0	8
	% Row	50.0%	.0%	50.0%	.0%	.0%	100.0%
	%Column	11.4%	.0%	9.8%	.0%	.0%	7.3%
Other (please specify)	Count	1	1	4	0	1	7
	% Row	14.3%	14.3%	57.1%	.0%	14.3%	100.0%
	%Column	2.9%	6.7%	9.8%	.0%	9.1%	6.4%
Total	Count	35	15	41	7	11	109
	% Row	32.1%	13.8%	37.6%	6.4%	10.1%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

An attempt was made to discover sources of financing for SMEs by cross tabulating the nature and stage of business with Q32 (P5Q32 How did you finance the initial start-up costs of the business?) with the aim of investigating the limitations of financial deepening in Saudi Arabia. The results in table 7.12 show that 67.6% of entrepreneurs planning to start a new business financed the initial start-up costs through self-financing or personal savings. 57.1% of entrepreneurs with an operating business financed it through self-financing or personal savings and 31.4% financed it through relatives, friends or an inheritance. 76.9% of entrepreneurs with an operating business and full-time government job financed the initial start-up via self financing or personal savings. Furthermore, 50% of entrepreneurs with an operating business and a full-time private sector job financed the initial start-up via self financing or personal savings and 20% in the other category, by resorting to Islamic funding.

Table 7.12 Entrepreneurial Categories * P5Q32 Initial Fund Cross Tabulation

		P5Q32 How did you finance the initial start-up costs of the business? (You can choose more than one option)							
Entrepreneurial Categories (Q68)		Self financing /personal savings	Relatives, friends or inheritance	Partnership with relatives	Conventional finance (please specify)	Islamic finance (please specify)	Albarakah bank	Bank loan	Total
Entrepreneur planning to start a new business	Count	23	5	1	0	3	1	1	34
	% Row	67.6%	14.7%	2.9%	.0%	8.8%	2.9%	2.9%	100.0%
	%Column	37.7%	27.8%	12.5%	.0%	60.0%	100.0%	100.0%	35.8%
Entrepreneur with an operating business	Count	20	11	3	0	1	0	0	35
	% Row	57.1%	31.4%	8.6%	.0%	2.9%	.0%	.0%	100.0%
	%Column	32.8%	61.1%	37.5%	.0%	20.0%	.0%	.0%	36.8%
Entrepreneur with an operating business and full-time government job	Count	10	2	1	0	0	0	0	13
	% Row	76.9%	15.4%	7.7%	.0%	.0%	.0%	.0%	100.0%
	%Column	16.4%	11.1%	12.5%	.0%	.0%	.0%	.0%	13.7%
Entrepreneur with an operating business and full-time private job	Count	4	0	3	1	0	0	0	8
	% Row	50.0%	.0%	37.5%	12.5%	.0%	.0%	.0%	100.0%
	%Column	6.6%	.0%	37.5%	100.0%	.0%	.0%	.0%	8.4%
Other (please specify)	Count	4	0	0	0	1	0	0	5
	% Row	80.0%	.0%	.0%	.0%	20.0%	.0%	.0%	100.0%
	%Column	6.6%	.0%	.0%	.0%	20.0%	.0%	.0%	5.3%
Total	Count	61	18	8	1	5	1	1	95
	% Row	64.2%	18.9%	8.4%	1.1%	5.3%	1.1%	1.1%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

To extend the analysis on financial deepening, stage and nature of business was cross-tabulated with Q34 (What source do you use for financing your ongoing operation?) to locate the source of financing for ongoing operations. The results in table 7.13 show that there is a limitation on institutional borrowing in the Kingdom. As the results show, 38.5% of entrepreneurs with no experience financed the ongoing operation through an individual moneylender and 23.1% financed it through retained earnings of the business. 56% of entrepreneurs with experience from 1 to 5 years financed the ongoing operation through retained earning of the business and only 12% of them financed it through borrowing from relatives or friends. 60% of entrepreneurs with experience from 6 to 10 years financed the venture via retained earnings of the business and 13.3% financed it through Islamic funding. Entrepreneurs with experience from 11 to 15 years are divided into four main groups:

40% of them financed the ongoing operation through trade and supplier credit; 20% through retained earnings of the business, 20% through individual money lenders, and 20% borrowed from relatives or friends. In the last category, entrepreneurs with more than 15 years experience, the results show that 71.4% financed the business operation via retaining earnings of the business and an equal percentage of 14.3% financed the venture through individual money lenders and borrowing from the banks respectively.

Table 7.13 Experience * P5Q34 Ongoing Operational Fund Cross Tabulation

What source do you use for financing your ongoing operation?										
Working Experience		Retained earnings of the business	Individual money lender	Trade/supplier credit	Sell equity in the business	Borrowing from the banks	Borrowing from relatives or friends	Islamic Funding (please specify)	Other (please specify)	Total
No experience	Count	6	10	2	2	1	0	4	1	26
	% Row	23.1%	38.5%	7.7%	7.7%	3.8%	.0%	15.4%	3.8%	100.0%
	%Column	13.6%	58.8%	28.6%	50.0%	50.0%	.0%	44.4%	25.0%	28.0%
From 1 to 5 years	Count	14	2	1	2	0	3	1	2	25
	% Row	56.0%	8.0%	4.0%	8.0%	.0%	12.0%	4.0%	8.0%	100.0%
	%Column	31.8%	11.8%	14.3%	50.0%	.0%	50.0%	11.1%	50.0%	26.9%
From 6 to 10 years	Count	18	3	2	0	0	2	4	1	30
	% Row	60.0%	10.0%	6.7%	.0%	.0%	6.7%	13.3%	3.3%	100.0%
	%Column	40.9%	17.6%	28.6%	.0%	.0%	33.3%	44.4%	25.0%	32.3%
From 11 to 15 years	Count	1	1	2	0	0	1	0	0	5
	% Row	20.0%	20.0%	40.0%	.0%	.0%	20.0%	.0%	.0%	100.0%
	%Column	2.3%	5.9%	28.6%	.0%	.0%	16.7%	.0%	.0%	5.4%
More than 15 years	Count	5	1	0	0	1	0	0	0	7
	% Row	71.4%	14.3%	.0%	.0%	14.3%	.0%	.0%	.0%	100.0%
	%Column	11.4%	5.9%	.0%	.0%	50.0%	.0%	.0%	.0%	7.5%
Total	Count	44	17	7	4	2	6	9	4	93
	% Row	47.3%	18.3%	7.5%	4.3%	2.2%	6.5%	9.7%	4.3%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Obviously, entrepreneurs should have a future investment plan, so this question investigates the financing of such investments. Therefore, to discover how future business developments are planned in terms of financing, the nature and stage of business were cross tabulated with Q44 (How would you mainly plan to finance future investment?). As the results in table 7.14 shows, 51.6% of entrepreneurs planning to start a new business would use personal savings/ retained earnings of the business and 19.4% would seek funding from Islamic banks. 54.3% of entrepreneurs

with an operating business plan to finance their future investment through personal savings/ retained earnings of the business and 20% would consider having a business partner. 57.1% of entrepreneurs with an operating business and full-time government job would finance their future investment via personal savings/ retained earnings of the business and 21.4% would seek funding from Islamic banks. 75% of entrepreneurs with an operating business and a full-time private sector job plan to use personal savings/ retained earnings of the business as their main source of finance. Therefore, there is a demand for funds, but not from financial institutions.

In order to gauge entrepreneurs' knowledge about available government financing programmes, nature and stage of business was cross-tabulated with Q48 (Do you know the Saudi Industrial Development Fund with ten of the Saudi banks established a programme to guarantee appropriate funding for SMEs?) in table 7.15. The results indicate that entrepreneurs, in general, seem not to be up-to-date on the government's new policies regarding the SME sector, hence limited awareness is prevailing among the SME entrepreneurs. The results show that 60.9% of entrepreneurs planning to start a new business did not know about the programme; 71.4% of entrepreneurs with an operating business, 78.6% of entrepreneur with an operating business and a full-time government job and 75% of entrepreneurs with an operating business and a full-time private sector job all did not know about the programme intended to guarantee appropriate funding for SMEs set by Saudi Industrial Development Fund in cooperation with ten Saudi banks.

Table 7.14 Entrepreneurial Categories * P5Q44 Future Investment Fund Cross Tabulation

		P5Q44 How would you mainly plan to finance future investment?							
Entrepreneurial Categories (Q68)		Personal savings/ Retained earnings of the business	loan from conventional bank	Funding from Islamic bank (please specify)	Having a partner	Other (please specify)	Alrajihi bank	Couldn't got funding	Total
Entrepreneur planning to start a new business	Count	16	2	6	3	3	0	1	31
	% Row	51.6%	6.5%	19.4%	9.7%	9.7%	.0%	3.2%	100.0%
	%Column	31.4%	33.3%	40.0%	27.3%	42.9%	.0%	100.0%	33.7%
Entrepreneur with an operating business	Count	19	2	5	7	2	0	0	35
	% Row	54.3%	5.7%	14.3%	20.0%	5.7%	.0%	.0%	100.0%
	%Column	37.3%	33.3%	33.3%	63.6%	28.6%	.0%	.0%	38.0%
Entrepreneur with an operating business and full-time government job	Count	8	1	2	1	1	1	0	14
	% Row	57.1%	7.1%	14.3%	7.1%	7.1%	7.1%	.0%	100.0%
	%Column	15.7%	16.7%	13.3%	9.1%	14.3%	100.0%	.0%	15.2%
Entrepreneur with an operating business and full-time private job	Count	6	0	1	0	1	0	0	8
	% Row	75.0%	.0%	12.5%	.0%	12.5%	.0%	.0%	100.0%
	%Column	11.8%	.0%	6.7%	.0%	14.3%	.0%	.0%	8.7%
Other (please specify)	Count	2	1	1	0	0	0	0	4
	% Row	50.0%	25.0%	25.0%	.0%	.0%	.0%	.0%	100.0%
	%Column	3.9%	16.7%	6.7%	.0%	.0%	.0%	.0%	4.3%
Total	Count	51	6	15	11	7	1	1	92
	% Row	55.4%	6.5%	16.3%	12.0%	7.6%	1.1%	1.1%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 7.15 Entrepreneurial Categories * P6Q48 Saudi Funding Project Cross Tabulation

Do you know the Saudi Industrial Development Fund with ten of the Saudi banks established a programme to guarantee appropriate funding for SMEs?				
Entrepreneurial Categories		Yes	No	Total
Entrepreneur planning to start a new business	Count	18	28	46
	% Row	39.1%	60.9%	100.0%
	%Column	48.6%	37.8%	41.4%
Entrepreneur with an operating business	Count	10	25	35
	% Row	28.6%	71.4%	100.0%
	%Column	27.0%	33.8%	31.5%
Entrepreneur with an operating business and full-time government	Count	3	11	14
	% Row	21.4%	78.6%	100.0%
	%Column	8.1%	14.9%	12.6%
Entrepreneur with an operating business and full-time private	Count	2	6	8
	% Row	25.0%	75.0%	100.0%
	%Column	5.4%	8.1%	7.2%
Other (please specify)	Count	4	4	8
	% Row	50.0%	50.0%	100.0%
	%Column	10.8%	5.4%	7.2%
Total	Count	37	74	111
	% Row	33.3%	66.7%	100.0%
	%Column	100.0%	100.0%	100.0%

7.3 ATTITUDE TOWARD PARTNERSHIP

In order to ascertain the attitude of the participant entrepreneurs towards partnership, business experience was cross tabulated with Q16 (What is your business ownership structure?), namely the business structure. As the results in Table 7.16 show, the essential structure of entrepreneur ownership in the sample is that of a sole proprietorship. As a result, 54.5% of entrepreneurs with no experience have sole proprietor ownership and 27.3% involve a family partnership. 53.1% of entrepreneurs with experience from 1 to 5 years have sole proprietor ownership; with 18.8% running a limited liability company. 51.5% of entrepreneurs with experience from 6 to 10 years have sole proprietor ownership and 24.2% are involved in non-family partnerships. 60% of entrepreneurs with experience from 11 to 15 years engage in family partnerships, with 40% having sole proprietor ownership. 57.1% of entrepreneurs with more than 15 years experience are involved in a sole proprietor structure and 28.6% enjoy family partnerships.

Table 7.16 Experience * P3Q16 Ownership Structure Cross Tabulation

What is your business ownership structure?							
Working Experience		Sole proprietor	Family partnership	Non-family partnership	A limited liability company	Other (please specify)	Total
No experience	Count	18	9	4	2	0	33
	% Row	54.5%	27.3%	12.1%	6.1%	.0%	100.0%
	%Column	31.0%	39.1%	25.0%	18.2%	.0%	30.0%
From 1 to 5 years	Count	17	4	3	6	2	32
	% Row	53.1%	12.5%	9.4%	18.8%	6.3%	100.0%
	%Column	29.3%	17.4%	18.8%	54.5%	100.0%	29.1%
From 6 to 10 years	Count	17	5	8	3	0	33
	% Row	51.5%	15.2%	24.2%	9.1%	.0%	100.0%
	%Column	29.3%	21.7%	50.0%	27.3%	.0%	30.0%
From 11 to 15 years	Count	2	3	0	0	0	5
	% Row	40.0%	60.0%	.0%	.0%	.0%	100.0%
	%Column	3.4%	13.0%	.0%	.0%	.0%	4.5%
More than 15 years	Count	4	2	1	0	0	7
	% Row	57.1%	28.6%	14.3%	.0%	.0%	100.0%
	%Column	6.9%	8.7%	6.3%	.0%	.0%	6.4%
Total	Count	58	23	16	11	2	110
	% Row	52.7%	20.9%	14.5%	10.0%	1.8%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Assuming that entrepreneurs would have a business partner, Q17 ascertained the extent of ownership they would allow the partner to have. Thus, Q17 (If you are to have a partnership in your business, what is an acceptable percentage that could be owned by a partner?) was cross-tabulated with the nature and stage of business in table 7.17. The results indicate that most of them will give the partner an ownership level of between 26% and 49%, suggesting they would like to retain majority control of the business. The results show that 32.6% of entrepreneurs planning to start a new business would offer the partner from 26% to 49% ownership, 23.9% would give the partner from 50% to 75%. 48.6% of entrepreneurs with an operating business would allow the partner to have a 26% to 49% share in the business and 22.9% would give the partner less than 25% share in the business. 57.1% of entrepreneurs with an operating business and a full-time government job together with 50% of entrepreneurs with an operating business and a full-time private sector job would allow the partner to have a 26% to 49% share in the business and 37.5% of this group would give from 50% to 75% to the partner.

Table 7.17 Entrepreneurial Categories * P3Q17 Percentage Owned by A partner Cross Tabulation

If you are to have a partnership in your business, what is an acceptable percentage that could be owned by a partner?						
Entrepreneurial Categories		Less than 25%	From 26% to 49%	From 50% to 75%	Don't want a partner	Total
Entrepreneur planning to start a new business	Count	10	15	11	10	46
	% Row	21.7%	32.6%	23.9%	21.7%	100.0%
	%Column	43.5%	31.9%	64.7%	41.7%	41.4%
Entrepreneur with an operating business	Count	8	17	3	7	35
	% Row	22.9%	48.6%	8.6%	20.0%	100.0%
	%Column	34.8%	36.2%	17.6%	29.2%	31.5%
Entrepreneur with an operating business and full-time government job	Count	2	8	0	4	14
	% Row	14.3%	57.1%	.0%	28.6%	100.0%
	%Column	8.7%	17.0%	.0%	16.7%	12.6%
Entrepreneur with an operating business and full-time private job	Count	1	4	3	0	8
	% Row	12.5%	50.0%	37.5%	.0%	100.0%
	%Column	4.3%	8.5%	17.6%	.0%	7.2%
Other (please specify)	Count	2	3	0	3	8
	% Row	25.0%	37.5%	.0%	37.5%	100.0%
	%Column	8.7%	6.4%	.0%	12.5%	7.2%
Total	Count	23	47	17	24	111
	% Row	20.7%	42.3%	15.3%	21.6%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%

7.4 POTENTIAL OF ISLAMIC BANKING AND ISLAMIC FINANCIAL INSTITUTION TO FINANCE SMEs

Demand for Islamic banking or Islamic financial institutions in Saudi Arabia cannot be overlooked, as the results of this survey prove. This section began by investigating reasons for collaborating with the Islamic financial institutions. Therefore, business experience was cross-tabulated with Q9 (Which of the following attracted you to deal with Islamic financial instruments?) in table 7.18. The results show that 91.2% of entrepreneurs with no experience, 84.4% of entrepreneurs with working experience from 1 to 5 years, 90.9% of entrepreneurs with working experience from 6 to 10 years, 100% of entrepreneurs with a working experience from 11 to 15 years and 85.7% of entrepreneurs with more than 15 years working experience, all overwhelmingly chose religion as the main reason for selecting Islamic financial institutions.

Table 7.18 Experience * P2Q9 Attraction Dealing with IF Cross Tabulation

Which of the following attracted you to deal with Islamic financial instruments?								
Working Experience		Religiosity	Profitability	Competitive services	More access to finance	Others, please specify	I don't prefer any kind of fund	Total
No experience	Count	31	0	0	2	1	0	34
	% Row	91.2%	.0%	.0%	5.9%	2.9%	.0%	100.0%
	%Column	31.3%	.0%	.0%	40.0%	100.0%	.0%	30.6%
From 1 to 5 years	Count	27	2	0	3	0	0	32
	% Row	84.4%	6.3%	.0%	9.4%	.0%	.0%	100.0%
	%Column	27.3%	50.0%	.0%	60.0%	.0%	.0%	28.8%
From 6 to 10 years	Count	30	1	1	0	0	1	33
	% Row	90.9%	3.0%	3.0%	.0%	.0%	3.0%	100.0%
	%Column	30.3%	25.0%	100.0%	.0%	.0%	100.0%	29.7%
From 11 to 15 years	Count	5	0	0	0	0	0	5
	% Row	100.0%	.0%	.0%	.0%	.0%	.0%	100.0%
	%Column	5.1%	.0%	.0%	.0%	.0%	.0%	4.5%
More than 15 years	Count	6	1	0	0	0	0	7
	% Row	85.7%	14.3%	.0%	.0%	.0%	.0%	100.0%
	%Column	6.1%	25.0%	.0%	.0%	.0%	.0%	6.3%
Total	Count	99	4	1	5	1	1	111
	% Row	89.2%	3.6%	.9%	4.5%	.9%	.9%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Furthermore, to explore financial deepening and financial professional attitude in the Saudi Arabian business environment, Q11 (If you need money for business reasons, who would you borrow from?) cross-tabulated with the nature and stage of business in Table 7.19.

Table 7.19 Entrepreneurial Categories * P2Q11 Principle of Borrowing Cross Tabulation

		P2Q11 If you need money for business reasons, would you borrow from?							
Entrepreneurial Categories (Q68)		An Islamic bank or Islamic Financial Institution	Any financial institution offers conventional loans	A friends or family	Other (please specify)	Depend on my own saving	I don't prefer any kind of fund	Mark-up finance	Total
Entrepreneur planning to start a new business	Count	26	5	13	1	0	1	0	46
	% Row	56.5%	10.9%	28.3%	2.2%	.0%	2.2%	.0%	100.0%
	%Column	43.3%	55.6%	37.1%	33.3%	.0%	50.0%	.0%	41.4%
Entrepreneur with an operating business	Count	14	2	15	2	1	0	1	35
	% Row	40.0%	5.7%	42.9%	5.7%	2.9%	.0%	2.9%	100.0%
	%Column	23.3%	22.2%	42.9%	66.7%	100.0%	.0%	100.0%	31.5%
Entrepreneur with an operating business and full-time government job	Count	8	0	6	0	0	0	0	14
	% Row	57.1%	.0%	42.9%	.0%	.0%	.0%	.0%	100.0%
	%Column	13.3%	.0%	17.1%	.0%	.0%	.0%	.0%	12.6%
Entrepreneur with an operating business and full-time private job	Count	6	0	1	0	0	1	0	8
	% Row	75.0%	.0%	12.5%	.0%	.0%	12.5%	.0%	100.0%
	%Column	10.0%	.0%	2.9%	.0%	.0%	50.0%	.0%	7.2%
Other (please specify)	Count	6	2	0	0	0	0	0	8
	% Row	75.0%	25.0%	.0%	.0%	.0%	.0%	.0%	100.0%
	%Column	10.0%	22.2%	.0%	.0%	.0%	.0%	.0%	7.2%
Total	Count	60	9	35	3	1	2	1	111
	% Row	54.1%	8.1%	31.5%	2.7%	.9%	1.8%	.9%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Broadly, fund-seekers always maintain a diversity of capital providers, so they have their own criteria to choose one rather than another. The results show that 56.5% of entrepreneur planning to start a new business would borrow money from Islamic banks or Islamic financial institutions, 28.3% would borrow from friends or family and 10.9% would borrow from any financial institution offering conventional loans. 40% of entrepreneurs with an operating business would borrow money for business reasons from Islamic banks or Islamic financial institutions, 42.9% would borrow from friends or family. 57.1% of entrepreneurs with an operating business and a full-time government job would have access to money through Islamic banks or Islamic

financial institutions and 42.9% would finance their business through friends or family. 75% of entrepreneurs with an operating business and a full-time private sector job would select Islamic banks or Islamic financial institutions as a capital provider.

Table 7.20 Experience * Islamic Bank Cross Tabulation

Which of the following capital providers would you request fund from? (Please rank the options, 1 being the most preferred, and 5 is the least preferred)

Working Experience		First Preference	Second Preference	Third Preference	Fourth Preference	Total
No experience	Count	21	11	1	0	33
	% Row	63.6%	33.3%	3.0%	.0%	100.0%
	%Column	38.9%	24.4%	10.0%	.0%	30.0%
From 1 to 5 years	Count	15	14	3	0	32
	% Row	46.9%	43.8%	9.4%	.0%	100.0%
	%Column	27.8%	31.1%	30.0%	.0%	29.1%
From 6 to 10 years	Count	17	11	5	0	33
	% Row	51.5%	33.3%	15.2%	.0%	100.0%
	%Column	31.5%	24.4%	50.0%	.0%	30.0%
From 11 to 15 years	Count	0	4	0	1	5
	% Row	.0%	80.0%	.0%	20.0%	100.0%
	%Column	.0%	8.9%	.0%	100.0%	4.5%
More than 15 years	Count	1	5	1	0	7
	% Row	14.3%	71.4%	14.3%	.0%	100.0%
	%Column	1.9%	11.1%	10.0%	.0%	6.4%
Total	Count	54	45	10	1	110
	% Row	49.1%	40.9%	9.1%	.9%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%

To rationalise the preference for Islamic banks for funding, business experience was cross-tabulated with Q28 in table 7.20. 63.6% of entrepreneurs with no experience have chosen Islamic banks as the preferred capital providers and 33.3% as a second preference. 46.9% of entrepreneurs with working experience from 1 to 5 years chose Islamic banks as a first preference and 43.8% chose it as a second preference. 51.5% of entrepreneurs with working experience from 6 to 10 years have Islamic banks as a first preference and 33.3% as a second preference. 80% of entrepreneurs with working experience from 11 to 15 years classify Islamic banks as a second preference amongst capital providers. 71.4% of entrepreneurs with more than 15 years working experience identify Islamic banks as a second preference.

To further explore the extent of preference for funding from conventional banks, this is cross-tabulated with business experience in table 7.21. The results show that conventional banks in terms of preference are mostly ranked third and fourth. As a result, 45.5% of entrepreneurs with no experience classify conventional banks as a third preference and 36.4% classify them as their fourth preference. 50% of entrepreneurs with working experience from 1 to 5 years specify conventional banks as the fourth preference and 31.3% specify them as their third preference. 39.4% of entrepreneurs with working experience from 6 to 10 years chose conventional banks as a fourth preference and 36.4% as a third preference. 60% of entrepreneurs with working experience from 11 to 15 years, 56.1% of entrepreneurs with more than 15 years experience classify conventional banks as a fourth preference.

Table 7.21 Experience * Conventional bank Cross Tabulation

Which of the following capital providers would you request fund from? (Please rank the options, 1 being the most preferred, and 5 is the least preferred)						
Experience		First Preference	Second Preference	Third Preference	Fourth Preference	Total
No experience	Count	1	5	15	12	33
	% Row	3.0%	15.2%	45.5%	36.4%	100.0%
	%Column	14.3%	31.3%	38.5%	25.0%	30.0%
From 1 to 5 years	Count	2	4	10	16	32
	% Row	6.3%	12.5%	31.3%	50.0%	100.0%
	%Column	28.6%	25.0%	25.6%	33.3%	29.1%
From 6 to 10 years	Count	3	5	12	13	33
	% Row	9.1%	15.2%	36.4%	39.4%	100.0%
	%Column	42.9%	31.3%	30.8%	27.1%	30.0%
From 11 to 15 years	Count	0	1	1	3	5
	% Row	.0%	20.0%	20.0%	60.0%	100.0%
	%Column	.0%	6.3%	2.6%	6.3%	4.5%
More than 15 years	Count	1	1	1	4	7
	% Row	14.3%	14.3%	14.3%	57.1%	100.0%
	%Column	14.3%	6.3%	2.6%	8.3%	6.4%
Total	Count	7	16	39	48	110
	% Row	6.4%	14.5%	35.5%	43.6%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%

Development of capital markets provides a new financing opportunity for businesses. However, the cross-tabulation of business experience with financing preference towards capital market in table 7.22 shows that capital markets as means of raising funds are not the top choice from the Saudi fund-seekers' point of view. As the results demonstrate, 54.5% of entrepreneurs with no experience place the capital

market as a fourth preference and 39.4% chose it as a third preference. 40.6% of entrepreneurs with working experience from 1 to 5 years classify the capital market as a third preference and 37.5% classify it as their fourth preference. 45.5% of entrepreneurs with working experience from 6 to 10 years specify the capital market as a third preference and 39.4% as a fourth preference. 80% of entrepreneurs with working experience from 11 to 15 years classify the capital market in terms of fund provider as a third preference. 57.1% of entrepreneurs with more than 15 years experience classify the capital market as a third preference and 42.9% order it as their fourth preference.

Table 7.22 Experience * Capital market Cross Tabulation

Which of the following capital providers would you request funds from? (Please rank the options, 1 being the most preferred, and 5 is the least preferred)						
Working Experience		First Preference	Second Preference	Third Preference	Fourth Preference	Total
No experience	Count	1	1	13	18	33
	% Row	3.0%	3.0%	39.4%	54.5%	100.0%
	%Column	25.0%	10.0%	26.5%	38.3%	30.0%
From 1 to 5 years	Count	1	6	13	12	32
	% Row	3.1%	18.8%	40.6%	37.5%	100.0%
	%Column	25.0%	60.0%	26.5%	25.5%	29.1%
From 6 to 10 years	Count	2	3	15	13	33
	% Row	6.1%	9.1%	45.5%	39.4%	100.0%
	%Column	50.0%	30.0%	30.6%	27.7%	30.0%
From 11 to 15 years	Count	0	0	4	1	5
	% Row	.0%	.0%	80.0%	20.0%	100.0%
	%Column	.0%	.0%	8.2%	2.1%	4.5%
More than 15 years	Count	0	0	4	3	7
	% Row	.0%	.0%	57.1%	42.9%	100.0%
	%Column	.0%	.0%	8.2%	6.4%	6.4%
Total	Count	4	10	49	47	110
	% Row	3.6%	9.1%	44.5%	42.7%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%

In order to see if the Saudi business environment is shaped through traditional financing attitudes, business experience was cross-tabulated with preferences towards friends and family as capital providers. As the results in table 23 show, 71.4% of entrepreneurs with working experience of more than 15 years and 100% of entrepreneurs with working experience from 11 to 15 years rank friends or family as a primary preference capital provider. 42.4% of entrepreneurs with working experience from 6 to 10 years place friends or family as a second preference and 33.3% place it

as a first preference. 43.8% of entrepreneurs with working experience from 1 to 5 years classify friends or family as a first preference and 25% place them as a second option. 48.5% of entrepreneurs with no experience place friends and family as a second option and 30.3% place them as first preference.

Table 7.23 Experience * Friends or Family Cross Tabulation

Which of the following capital providers would you request funds from? (Please rank the options, 1 being the most preferred, and 5 is the least preferred)						
Working Experience		First Preference	Second Preference	Third Preference	Fourth Preference	Total
No experience	Count	10	16	4	3	33
	% Row	30.3%	48.5%	12.1%	9.1%	100.0%
	%Column	22.2%	41.0%	33.3%	21.4%	30.0%
From 1 to 5 years	Count	14	8	6	4	32
	% Row	43.8%	25.0%	18.8%	12.5%	100.0%
	%Column	31.1%	20.5%	50.0%	28.6%	29.1%
From 6 to 10 years	Count	11	14	1	7	33
	% Row	33.3%	42.4%	3.0%	21.2%	100.0%
	%Column	24.4%	35.9%	8.3%	50.0%	30.0%
From 11 to 15 years	Count	5	0	0	0	5
	% Row	100.0%	.0%	.0%	.0%	100.0%
	%Column	11.1%	.0%	.0%	.0%	4.5%
More than 15 years	Count	5	1	1	0	7
	% Row	71.4%	14.3%	14.3%	.0%	100.0%
	%Column	11.1%	2.6%	8.3%	.0%	6.4%
Total	Count	45	39	12	14	110
	% Row	40.9%	35.5%	10.9%	12.7%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%

The last part in this section pertains to the suitability of financial institutions, in terms of using PLS as a mode of financing SME. Hence, an attempt was made to find the most appropriate financing source by cross-tabulating Q56 (Which financial institution is more compatible in term of using PLS as a mode of financing SMEs?) with the nature and stage of business, the results of which are depicted in table 7.24. The results show that 75.7% of entrepreneurs planning to start a new business consider Islamic banks and Islamic financial institutions to be more compatible in terms of using PLS to finance SMEs. 57.1% of entrepreneurs with an operating business classify Islamic banks and Islamic financial institutions as more compatible capital providers. 57.2% of entrepreneurs with an operating business and a full-time government job place Islamic banks and Islamic financial institutions as more

compatible, while 35.7% believe that a venture capital company is more compatible in terms of using PLS as a mode of financing SMEs. 71.4% of entrepreneurs with an operating business and a full-time private sector job believe that Islamic banks are a more compatible mode of finance for SMEs through PLS.

Table 7.24 Entrepreneurial Categories * P6Q56 Financing SME through PLS Cross Tabulation

Which financial institution is more compatible in term of using PLS as a mode of financing SME?									
Entrepreneurial Categories		Islamic banks	Conventional banks	Islamic financial institutions	Conventional financial institutions	Government development agencies	Venture capital company	Other (please specify)	Total
Entrepreneur planning to start a new business	Count	24	2	10	2	4	3	0	45
	% Row	53.3%	4.4%	22.2%	4.4%	8.9%	6.7%	.0%	100.0%
	%Column	47.1%	33.3%	43.5%	100.0%	30.8%	23.1%	.0%	41.3%
Entrepreneur with an operating business	Count	16	1	4	0	8	5	1	35
	% Row	45.7%	2.9%	11.4%	.0%	22.9%	14.3%	2.9%	100.0%
	%Column	31.4%	16.7%	17.4%	.0%	61.5%	38.5%	100.0%	32.1%
Entrepreneur with an operating business and full-time government job	Count	4	1	4	0	0	5	0	14
	% Row	28.6%	7.1%	28.6%	.0%	.0%	35.7%	.0%	100.0%
	%Column	7.8%	16.7%	17.4%	.0%	.0%	38.5%	.0%	12.8%
Entrepreneur with an operating business and full-time private job	Count	2	1	5	0	0	0	0	8
	% Row	25.0%	12.5%	62.5%	.0%	.0%	.0%	.0%	100.0%
	%Column	3.9%	16.7%	21.7%	.0%	.0%	.0%	.0%	7.3%
Other (please specify)	Count	5	1	0	0	1	0	0	7
	% Row	71.4%	14.3%	.0%	.0%	14.3%	.0%	.0%	100.0%
	%Column	9.8%	16.7%	.0%	.0%	7.7%	.0%	.0%	6.4%
Total	Count	51	6	23	2	13	13	1	109
	% Row	46.8%	5.5%	21.1%	1.8%	11.9%	11.9%	.9%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

7.5 SAUDI SMEs BUSINESS ENVIRONMENT

The last section within this Chapter investigates Saudi entrepreneurs' conceptions towards capability of the Saudi business environment to absorb further SMEs into the market and whether they think the government should intervene to encourage the awareness of SMEs. To the end of clarifying this point, business experience was cross-tabulated with Q45 (Do you agree that the government should intervene to

encourage the awareness of the importance of SMEs?). As the results in table 7.25 shows, entrepreneurs have high expectations in the Saudi SMEs business environment: 44.1% of entrepreneurs with no experience agree that an intervention by the government is needed and 38.2% strongly agree. 53.1% of entrepreneurs with working experience from 1 to 5 years strongly agree and 37.5% agree with government intervention in the business environment. 54.5% of entrepreneurs with working experience from 6 to 10 years agree and 27.3% strongly agree with the need for intervention. For entrepreneurs with working experience from 11 to 15 years 60% and 20%, respectively, strongly agree and agree. 71.4% of the entrepreneurs with more than 15 years working experience strongly agree with government intervention.

Table 7.25 Experience * P6Q45 Government Intervention Cross Tabulation

Do you agree that the government should intervene to encourage the awareness of the importance of SMEs?							
Working Experience		Strongly disagree	Disagree	Don't know	Agree	Strongly agree	Total
No experience	Count	3	3	0	15	13	34
	% Row	8.8%	8.8%	.0%	44.1%	38.2%	100.0%
	%Column	100.0%	75.0%	.0%	31.9%	27.7%	30.6%
From 1 to 5 years	Count	0	0	3	12	17	32
	% Row	.0%	.0%	9.4%	37.5%	53.1%	100.0%
	%Column	.0%	.0%	30.0%	25.5%	36.2%	28.8%
From 6 to 10 years	Count	0	1	5	18	9	33
	% Row	.0%	3.0%	15.2%	54.5%	27.3%	100.0%
	%Column	.0%	25.0%	50.0%	38.3%	19.1%	29.7%
From 11 to 15 years	Count	0	0	1	1	3	5
	% Row	.0%	.0%	20.0%	20.0%	60.0%	100.0%
	%Column	.0%	.0%	10.0%	2.1%	6.4%	4.5%
More than 15 years	Count	0	0	1	1	5	7
	% Row	.0%	.0%	14.3%	14.3%	71.4%	100.0%
	%Column	.0%	.0%	10.0%	2.1%	10.6%	6.3%
Total	Count	3	4	10	47	47	111
	% Row	2.7%	3.6%	9.0%	42.3%	42.3%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

As mentioned below, there are high expectations regarding the Saudi business environment's capability of absorbing more SMEs into the market. Therefore, nature and stage of business were cross-tabulated with Q46 (Do you think the environment of the Saudi financial sector is capable of absorbing more SMEs and guide them to have a long successful life?) in table 7.26 to see the how various entrepreneur groups perceive the financial market's ability to absorb further SMEs. The results are

presented in table 7.26. Out of the entrepreneurs planning to start a new business 41.3% agree and 23.9% strongly agree that the Saudi financial sector has the capability to absorb more SMEs and ensure their prolonged success. 40% of entrepreneurs with an operating business agree and 34.3% strongly agree on the capability of the Saudi financial market. 57.1% of entrepreneurs with an operating business and a full-time government job agree and 42.9% strongly agree as to the capability of the Saudi financial market. With regard to entrepreneurs with an operating business and a full-time private sector job 62.5% and 25% respectively agree and strongly agree.

Table 7.26 Entrepreneurial Categories * P6Q46 Saudi Financial Sector Cross Tabulation

Do you think the environment of the Saudi financial sector is capable of absorbing more SMEs and guide them to have a long successful life?							
Entrepreneurial Categories		Strongly disagree	Disagree	Don't know	Agree	Strongly agree	Total
Entrepreneur planning to start a new business	Count	2	6	8	19	11	46
	% Row	4.3%	13.0%	17.4%	41.3%	23.9%	100.0%
	%Column	33.3%	75.0%	50.0%	39.6%	33.3%	41.4%
Entrepreneur with an operating business	Count	2	2	5	14	12	35
	% Row	5.7%	5.7%	14.3%	40.0%	34.3%	100.0%
	%Column	33.3%	25.0%	31.3%	29.2%	36.4%	31.5%
Entrepreneur with an operating business and full-time government job	Count	0	0	0	8	6	14
	% Row	.0%	.0%	.0%	57.1%	42.9%	100.0%
	%Column	.0%	.0%	.0%	16.7%	18.2%	12.6%
Entrepreneur with an operating business and full-time private job	Count	0	0	1	5	2	8
	% Row	.0%	.0%	12.5%	62.5%	25.0%	100.0%
	%Column	.0%	.0%	6.3%	10.4%	6.1%	7.2%
Other (please specify)	Count	2	0	2	2	2	8
	% Row	25.0%	.0%	25.0%	25.0%	25.0%	100.0%
	%Column	33.3%	.0%	12.5%	4.2%	6.1%	7.2%
Total	Count	6	8	16	48	33	111
	% Row	5.4%	7.2%	14.4%	43.2%	29.7%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Since the Saudi capital market gaining strength, it is important to explore the influence of the Saudi Capital Market (Tadawal) on the entrepreneur's investment decisions. Therefore, the nature and stage of business was cross-tabulated with Q47 (In your opinion, does the Saudi capital market (Tadawal) attract you and other entrepreneurs to invest more in shares than involve in SMEs?). The results are depicted in table 7.27: 41.3% and 30.4% of entrepreneurs planning to start a new

business, respectively, agree and strongly agree that Tadawal incentivises investment in shares rather than SME involvement. 37.1% and 34.3% of entrepreneurs with an operating business respectively agree and strongly agree on the influence of Tadawal. Entrepreneurs with an operating business and full-time government job agree and strongly agree in equal percentage of 28.6% that Tadawal influences an entrepreneur's portfolio of investment. 37.5% of entrepreneurs with an operating business and full-time private sector job agree and 25% strongly agree on the influence of Tadawal.

Table 7.27 Entrepreneurial Categories * P6Q47 Saudi Capital Market Cross Tabulation

In your opinion, does the Saudi capital market (Tadawal) attract you and other entrepreneurs to invest more in shares than involve in SMEs?							
Entrepreneurial Categories		Strongly disagree	Disagree	Don't know	Agree	Strongly agree	Total
Entrepreneur planning to start a new business	Count	3	3	7	19	14	46
	% Row	6.5%	6.5%	15.2%	41.3%	30.4%	100.0%
	%Column	33.3%	27.3%	46.7%	45.2%	41.2%	41.4%
Entrepreneur with an operating business	Count	4	2	4	13	12	35
	% Row	11.4%	5.7%	11.4%	37.1%	34.3%	100.0%
	%Column	44.4%	18.2%	26.7%	31.0%	35.3%	31.5%
Entrepreneur with an operating business and full-time government job	Count	1	3	2	4	4	14
	% Row	7.1%	21.4%	14.3%	28.6%	28.6%	100.0%
	%Column	11.1%	27.3%	13.3%	9.5%	11.8%	12.6%
Entrepreneur with an operating business and full-time private job	Count	0	2	1	3	2	8
	% Row	.0%	25.0%	12.5%	37.5%	25.0%	100.0%
	%Column	.0%	18.2%	6.7%	7.1%	5.9%	7.2%
Other (please specify)	Count	1	1	1	3	2	8
	% Row	12.5%	12.5%	12.5%	37.5%	25.0%	100.0%
	%Column	11.1%	9.1%	6.7%	7.1%	5.9%	7.2%
Total	Count	9	11	15	42	34	111
	% Row	8.1%	9.9%	13.5%	37.8%	30.6%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

In the last section, future strategies of the participant entrepreneurs were considered (Q43) and cross-tabulated with business experience. The results are presented in table 7.28. They show that most participants plan to enlarge their business. 58.3% of entrepreneurs with no experience planned to enlarge the business and 16.7% would maintain the size. 53.8% of entrepreneurs with experience from 1 to 5 years planned to enlarge the business and two equal percentages of 19.2% planned to maintain the size of the business and enter into a new business respectively. 66.7% of

entrepreneurs with experience from 6 to 10 years intended to enlarge the size of the business. 60% of entrepreneurs with experience form 11 to 15 years intended to enlarge the business and 40% planned to enter into a new business. 28.6% of entrepreneurs planned to maintain the same size, and a similar percentage aimed to enlarge the business and enter into anew business, respectively.

Table 7.28 Experience * P5Q43 Future Strategy Cross Tabulation

What is your future strategy for the next three years?

Experience		Maintain the same size of the business	Enlarge the size of the business	Reduce the size of the business	Enter into new business	Other (please specify)	Total
No experience	Count	4	14	1	3	2	24
	% Row	16.7%	58.3%	4.2%	12.5%	8.3%	100.0%
	%Column	28.6%	26.4%	25.0%	15.8%	100.0%	26.1%
From 1 to 5 years	Count	5	14	2	5	0	26
	% Row	19.2%	53.8%	7.7%	19.2%	.0%	100.0%
	%Column	35.7%	26.4%	50.0%	26.3%	.0%	28.3%
From 6 to 10 years	Count	3	20	0	7	0	30
	% Row	10.0%	66.7%	.0%	23.3%	.0%	100.0%
	%Column	21.4%	37.7%	.0%	36.8%	.0%	32.6%
From 11 to 15 years	Count	0	3	0	2	0	5
	% Row	.0%	60.0%	.0%	40.0%	.0%	100.0%
	%Column	.0%	5.7%	.0%	10.5%	.0%	5.4%
More than 15 years	Count	2	2	1	2	0	7
	% Row	28.6%	28.6%	14.3%	28.6%	.0%	100.0%
	%Column	14.3%	3.8%	25.0%	10.5%	.0%	7.6%
Total	Count	14	53	4	19	2	92
	% Row	15.2%	57.6%	4.3%	20.7%	2.2%	100.0%
	%Column	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

7.6 CONCLUSION

This chapter attempted to examine various issues related to SMEs financing. The results show the limited present use of PLS, and demonstrate that PLS, as a mode of financing, is not being supplied to fund-seekers in an apt way, considering these entrepreneurs' dissimilar statuses. The majority of entrepreneurs in the sample have never experienced PLS with capital providers, while having high expectations of PLS as a mode of financing for SMEs. Furthermore, the results show that the majority of entrepreneurs in all categories in this sample were aware of the kind of financing that suits their business.

The results of the study also show that the mainstream of entrepreneur's ownership in the sample is that of a sole proprietorship and there is a limitation on financial deepening in the Kingdom of Saudi Arabia. As a conservative Islamic country, demand for Islamic banking or Islamic financial institutions are increasing in Saudi Arabia, which cannot be neglected, as the results of the survey prove.

The results in the last part of this chapter clearly indicate the confidence of Saudi entrepreneurs in the capability of the Saudi business environment to absorb SMEs, their belief in the long-term success of SMEs in Saudi Arabia as well their agreement that the government should intervene to encourage the awareness of the importance of SMEs. Overall, entrepreneurs have high expectations in the Saudi SMEs environment.

CHAPTER EIGHT

EMPIRICAL ANALYSIS OF THE ASPECTS OF SME BUSINESS AND FINANCING IN SAUDI ARABIA

8.1 INTRODUCTION

The third empirical chapter considers the inferential empirical statistical analysis component, while illustrating the full range of hypotheses implemented in this research. The hypotheses covered aspects pertaining to the SME financing sector, such as the level of knowledge gained by entrepreneurs, as the first part details. The second part of the chapter tests entrepreneurs' opinion of the Saudi SME and financial sector, whereas the third focuses on entrepreneurs' structure of ownership. The last part is the most detailed one as it contains six hypotheses out of the eleven presented in this research. Selective hypotheses have been used to test the attitudes of the Saudi entrepreneurs and Saudi capital providers in terms of finding accurate methods of finance, so as to develop the SME sector in the Kingdom of Saudi Arabia.

Most of the responses to the inferential related questions were recoded to be compatible with the statistical analysis tests. In an inferential statistical analysis chapter, each selected question was applied to all the participant entrepreneurs first and then the mean differences between the type of entrepreneurs (those planning to start and those operating already) and the type of business (small and medium) were considered. If there are mean differences between any entrepreneurs' characteristics/types, it would provide an opportunity to take the analysis further, so as to differentiate the type of entrepreneurs and type of businesses.

This chapter contains eleven main hypotheses for all the participant entrepreneurs and sub-hypotheses to test the variance differences between the types of entrepreneurs and types of business. These hypotheses can be classified mainly into four groups: PLS

awareness, Saudi SME and the Financial Sector, Entrepreneurship and Business Ownership, and Saudi Entrepreneurs and Saudi Capital Providers.

8.2 PLS AWARENESS

As it was meaningless to test knowledge in each of the four opening question, they were merged so as to allow for a significant analysis of respondents' level of knowledge in PLS. The hypothesis below mentions a fair level of knowledge, which means that the respondents should answer three questions out of four correctly in order to have a fair level of knowledge.

Hypothesis 1,

- ***Ho: Majority of Saudi entrepreneurs do not have a fair level of knowledge of Islamic banking products.***

Table 8.1 Level of Knowledge

All Entrepreneurs						
One-Sample Test						
	Test Value = 50					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
(%)	2.600	110	.011	6.30631	1.4994	11.1132

The inferential table above calculates a 0.01% significance level, so we reject the Ho since P-value < 0.05, and we accept the H1 that the majority of Saudi entrepreneurs have a fair level of knowledge on Islamic banking products.

The finding that entrepreneurs have a fair level of knowledge on Islamic banking products is consistent with the fact that Saudi Arabia has a religiously conservative population. Also, as Islam forms the foundation of society, the population has good access to the religious education.

Moreover, it is worth enquiring if there is any significant mean difference between Saudi entrepreneurs planning to start a business and those already operating a business. Thus, the following sub-hypothesis compares the two groups.

Ho: 1.1 There is no significant mean difference between Saudi entrepreneurs who plan to start a business and those who are operating a business, in terms of their general knowledge of PLS as an Islamic banking product

Table 8.2 Level of Knowledge

Type of Entrepreneurs, Plan to Start and Operating									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	6.822	.010	-2.027	109	.045	-.394	.194	-.779	-.009
Equal variances not assumed			-2.101	106.938	.038	-.394	.187	-.765	-.022

Based on the results, at a 95% confidence level, we conclude that there is significant mean difference between Saudi entrepreneurs who plan to start a business and those who are operating a business in terms of their general knowledge on PLS as an Islamic banking product, based on the significant result of 0.038% shown in table 8.2.

As the inferential result above shows, there are mean differences between the two types of entrepreneurs, namely about their level of general knowledge. But a definitive conclusion requires a more in-depth study to ascertain the mean differences. The main hypotheses would be implemented for both types of entrepreneurs.

Table 8.3 Level of Knowledge

Entrepreneur , Planning to Start a Business						
One-Sample Test[a]						
	Test Value = 50					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
(%)	.167	45	.868	.54348	-6.0019	7.0889

The One Sample Test shows no significant result, as the probability is 0.868%, so we fail to reject the null hypothesis since P-value > 0.05. Thus, with a 95% confidence level, it can be stated that the majority of Saudi entrepreneurs planning to start a business do not have a fair level of knowledge of Islamic banking products.

Table 8.4 Level of Knowledge

Entrepreneur Operating A Business						
One-Sample Test[a]						
	Test Value = 50					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
(%)	3.078	64	.003	10.38462	3.6437	17.1256

At $\alpha = 0.05$, we reject the null hypothesis since P-value < 0.05. Consequently at $\alpha = 0.05$, the majority of Saudi operating entrepreneurs have a fair level of knowledge on Islamic banking products. It can therefore be concluded that entrepreneurs planning to start their business seem to have less knowledge of Islamic banking products than presently operating entrepreneurs.

Furthermore, it is important to take into consideration the types of businesses in order find out whether there are mean differences between them. The same sub-hypothesis is implemented here but changed from type of entrepreneur to type of business.

Ho: 1.2 There is no significant mean difference between small and medium enterprises in terms of their general knowledge of PLS as an Islamic banking product.

Table 8.5 Level of Knowledge

Type of SMEs: Small and Medium										
Independent Samples Test[a]										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Level of Knowledge (%) Score	Equal variances assumed	.866	.354	-.318	109	.751	-.064	.202	-.464	.336
	Equal variances not assumed			-.334	96.878	.739	-.064	.192	-.445	.317

The Independent Samples Test conclusively shows a result of 0.751%, at a 95% confidence level, signifying that there is no significant mean difference between small and medium enterprises in terms of their general knowledge on PLS as an Islamic banking product.

8.3 ENTREPRENUERSHIP AND BUSINESS OWNERSHIP/PARTNERSHIP

Entrepreneurs always complain that their business enlargement and competitiveness are restricted by a lack of financial accessibility. The SMEs inheritance of high risk involvement worldwide, which neither entrepreneurs nor capital providers have failed to minimize, leads to individual launching their own firms as sole entrepreneurs. In addition, limitations on the financial depth and lack of specialised SMEs financial institution in the Kingdom of Saudi Arabia results in Saudi entrepreneurs avoiding partnerships. More than 50% of Saudi entrepreneurs are either sole proprietors or have inactive partners who would not intervene in the daily operations, as the study shows in hypothesis two. This is rational as the participants have limited financial depth, less financial diversity in the Kingdom and lack access to finance. Indeed the results in this section provide evidence for this:

Hypothesis 2

- ***Ho: The majority of Saudi entrepreneurs do not have partnerships.***

Table 8.6 Ownership Structure

All Entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	2 Not sole proprietor	52	.47	.50	.569[a]	.285
Group 2	1 Sole Proprietor	59	.53			
Total		111	1.00			

At $\alpha = 0.05$, the test in table 8.6 reveals an insignificant result of 0.285%, therefore we fail to reject the null hypothesis since P-value > 0.05. So at a 95% confidence level, the majority of the Saudi entrepreneurs do not have partnerships. As the majority of Saudi entrepreneurs do not have partnerships, more than 50% of them are sole proprietors, hence.

The observation here in the Binomial Test reveals the absence of the partnership sagacity. Do entrepreneurs planning to start a business or operating a business already have the same reaction towards partnerships? The sub-hypothesis below

directs the research to find out if there is a difference in reactions between entrepreneurs planning to start and entrepreneurs already operating a business.

Ho: 2.1 Partnership is independent of the stage of entrepreneurship (planning to start a business or operating a business already)

Table 8.7 Ownership Structure

Type of Entrepreneur: Plan to Start and Operating A business						
Chi-Square Tests[c]						
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	.030[a]	1	.862	1.000	.507	
Continuity Correction[b]	.000	1	1.000			
Likelihood Ratio	.030	1	.862	1.000	.507	
Fisher's Exact Test				1.000	.507	
Linear-by-Linear Association	.030[c]	1	.863	1.000	.507	.151
N of Valid Cases	111					

As the results in table 8.7 indicate, at $\alpha = 0.05$, we fail to reject the null hypothesis since P-value, $1.000 > 0.05$. As at $\alpha = 0.05$, partnership is independent of the type or the stage of entrepreneur (planning to start a business or operating a business already). This means that whether businessmen are planning to start or already operating a business, entrepreneurs suffer from the same absence of partnership sense.

The same sup-hypothesis is implemented to find out if the reaction towards partnership may differ between small and medium enterprises.

Ho: 2.2 Partnership is independent of the size of enterprise (small enterprise or medium enterprise)

Table 8.8 Ownership structure

Type of SMEs: Small and Medium						
Chi-Square Tests[c]						
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	.007[a]	1	.935	1.000	.546	
Continuity Correction[b]	.000	1	1.000			
Likelihood Ratio	.007	1	.935	1.000	.546	
Fisher's Exact Test				1.000	.546	
Linear-by-Linear Association	.007[c]	1	.935	1.000	.546	.156
N of Valid Cases	111					

At $\alpha = 0.05$, we fail to reject the null hypothesis, since P-value > 0.05. So at $\alpha = 0.05$, partnership is independent of the type of enterprise (small enterprise or medium enterprise). The results can be seen in table 8.8.

On the whole, the sense of partnership in both cases, entrepreneurs planning to start a business or operating a business already and small enterprise or medium enterprise, has nothing to do with the stage of entrepreneurship or the size of business. In brief, the absence of partnership has no correlation with either entrepreneurs starting or operating a business nor small or medium enterprises. In order to enhance the understanding of the Saudi entrepreneurs' attitudes toward partnership, the participant entrepreneurs were asked to state, assuming they have a business partner, is there a correlation between the percentage of ownership and work handled by partners? The following hypothesis would consider the main differences if there were any:

Hypothesis 3

- ***Ho: The acceptable percentages of ownership of a prospective partner and expected work to be handled by partner are independent of each other.***

Table 8.9 The Correlation between Percentage of Ownership and Expected Work by Partner

All Entrepreneurs						
Chi-Square Tests[c]						
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	15.994[a]	9	.067	.060		
Likelihood Ratio	16.915	9	.050	.096		
Fisher's Exact Test	13.474			.075		
N of Valid Cases	56					

As the chi-square test above calculated an insignificant result of 0.060%, we fail to reject the null hypothesis since P-value is 0.060 > 0.05. Hence at a 95% confidence level, the acceptable percentage of ownership of a prospective partner and expected work to be handled by partner are independent of each other.

As the results indicate, there is no correlation between the percentage of ownership and the work undertaken by partners. In fact, when we examine if there are significant mean differences between entrepreneurs planning to start or operating the business and small and medium enterprises, the results show no applicable method of testing, which leads to the need to test these individually.

Using Collapsed data of Category 4 with others for Question 18 (What kind of work should the partner be responsible for?) and cross-tabbed with Question 17(If you are to have a partnership in your business, what is an acceptable percentage that could be owned by a partner?), to become 4 by 4, using the same main hypothesis. The result for entrepreneurs planning to start a business was insignificant.

Table 8.10 The Correlation between Percentage of Ownership and Expected Work by Partner

Type of Entrepreneur: Planning to Start A business						
Chi-Square Tests[c]						
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	11.457[a]	9	.246	.250		
Likelihood Ratio	13.496	9	.141	.255		
Fisher's Exact Test	11.086			.200		
Linear-by-Linear Association	.389[b]	1	.533	.592	.299	.059
N of Valid Cases	41					

Thus, at a= 05, we fail to reject the null hypothesis since P-value > 0.05. As at a= 0.05, the acceptable percentage of ownership of a prospective partner and expected work to be handled by partner are independent of each other.

The same method was used with regard to entrepreneurs operating a business and the result was also insignificant, as can be seen in table 8.19.

Table 8.11 The Correlation between Percentage of Ownership and Expected Work by Partner

Type of Entrepreneur: Operating A business						
Chi-Square Tests[c]						
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	15.994[a]	9	.067	.060		
Likelihood Ratio	16.915	9	.050	.096		
Fisher's Exact Test	13.474			.075		
Linear-by-Linear Association	4.226[b]	1	.040	.041	.022	.007
N of Valid Cases	56					

Therefore, at α= 0.05, we fail to reject the null hypothesis since P-value > 0.05. As at α= 0.05, the acceptable percentage of ownership of a prospective partner and expected work to be handled by partner are independent of one another.

The same method is then used with small and medium enterprises and the result shows an insignificant finding for both sizes of enterprise, as table 8.12 shows below:

Table 8.12 The Correlation between Percentage of Ownership and Expected Work by Partner

Type of Enterprise: Small						
Chi-Square Tests[c]						
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	13.282[a]	9	.150	.149		
Likelihood Ratio	13.201	9	.154	.252		
Fisher's Exact Test	12.413			.144		
Linear-by-Linear Association	.244[b]	1	.621	.654	.337	.046
N of Valid Cases	59					

At $\alpha = 0.05$, we fail to reject the null hypothesis since P-value > 0.05. So at $\alpha = 0.05$, the acceptable percentage of small-business ownership of a prospective partner and expected work to be handled by partner are independent of one another.

Table 8.13 The Correlation between Percentage of Ownership and Expected Work by Partner

Type of Enterprise: Medium						
Chi-Square Tests[c]						
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	9.263[a]	9	.413	.428		
Likelihood Ratio	12.298	9	.197	.306		
Fisher's Exact Test	8.911			.406		
Linear-by-Linear Association	2.042[b]	1	.153	.177	.094	.031
N of Valid Cases	38					

According to the above table, we fail to reject the null hypothesis since P-value is 0.428 > 0.05. So at $\alpha = 0.05$, the acceptable percentage of medium-business ownership of a prospective partner and expected work to be handled by partner are independent of each other.

As the results of the sample test and inferential test showed, more than 50% of Saudi entrepreneurs are sole proprietors. Hence, this would cause some difficulties for entrepreneurs in Saudi Arabia in integrating the PLS concept of sharing profit and loss. Being the sole proprietor is one of the entrepreneur's characters and learning to work with a partner is a major step in their professional growth.

8.4 SAUDI SMES AND FINANCIAL SECTOR

Saudi SMEs are the backbone of private sector investment, as they form more than 80 percent of private enterprises in the Saudi Arabia market, and are expected to contribute more than 50 percent of total industrial production in the foreseeable future. SMEs are also the main source of jobs creation; encouraging entrepreneurial culture; eliminating poverty and are equally important in developing new products and services as well as technological innovation. Therefore, it can be suggested that they are the cornerstone of Saudi economic diversity.

The Saudi entrepreneurs have a bright future within the environment of the Saudi financial sector, as the hypothesis below shows:

Hypothesis 4

- ***Ho: The majority of Saudi entrepreneurs do not think that the environment of the Saudi financial sector is capable of absorbing more SME and guiding them towards a prolonged profitable existence.***

Table 8.14 Capability of the Saudi Financial Sector to Absorb more of SME

All Entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	2 No	30	.27	.50	.000[a]	.000
Group 2	1 Agree and Strongly Agree	81	.73			
Total		111	1.00			

Based on the highly significant results of Binomial test 0.00% and at a 99% confidence level, we reject the null hypothesis and conclude that the majority of Saudi entrepreneurs think that the environment of the Saudi financial sector is able to absorb more SMEs and ensure their long-term success.

This optimism is based on the general potential of the Saudi financial sector and the efforts it has been making to develop the SMEs sector as well as to help businesses to reach their various objectives. Entrepreneurs planning to start or already operating a business have the same point of view regarding the capability of the Saudi financial sector environment to absorb more SMEs and guide them to a long, successful

existence. The sub-hypothesis below investigates the aspects of entrepreneurs in the previous matter, individually.

Ho: 4.1 There is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those operating enterprises, that the Saudi financial sector environment is capable of absorbing more SME and guiding them to a prolonged profitable existence.

Table 8.15 Capability of the Saudi Financial Sector to Absorb more of SME

Type of Entrepreneur: Plan to Start and Operating A business									
Independent Samples T-test									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	1.602	.208	-1.403	109	.163	-.295	.210	-.712	.122
Equal variances not assumed			-1.394	94.726	.167	-.295	.212	-.716	.125

As the result of the Independent Sample T-test in table 8.15 shows, at $\alpha = 0.05$, we fail to reject the null hypothesis since P-value > 0.05. So at a 95% confidence level there is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those operating entrepreneurs, that the Saudi financial sector environment is capable of absorbing more SMEs and guiding them to prolonged success.

Moreover, with regard to small and medium businesses, there is no significant mean difference as the sub-hypothesis and table shows below:

Ho: 4.2. There is no significant difference in the mean perception score between small and medium enterprises, that the Saudi financial sector environment is capable of absorbing more SME and guiding to a prolonged profitable existence.

Table 8.16 Capability of the Saudi financial sector to absorb more of SME

Type of SMEs: Small and Medium									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	1.121	.292	.665	109	.507	.144	.216	-.285	.573
Equal variances not assumed			.662	82.601	.510	.144	.217	-.289	.576

As can be seen in table 8.16, at $\alpha = 0.05$ significance level, we fail to reject the null hypothesis since P-value > 0.05. Thus, we conclude that at 95% confidence level there is no significant difference in the mean perception score between small and medium enterprises, that the Saudi financial sector environment is capable of absorbing more SMEs and guiding them to a long successful life.

8.4.1 Entrepreneur's Reaction toward Government Effort

Despite the trust that entrepreneurs have in the Saudi financial sector and the efforts initiated by the government, they have recognised government as the main constraint on the financial system. The hypothesis below sets out to find out the influence of the government on the financial system, from entrepreneurs' point of view.

Hypothesis 5

- ***Ho: The majority of Saudi entrepreneurs do not perceive the government as the major constraint to SME business in developing financial systems in Saudi Arabia.***

Table 8.17 Government as a major Constraint

All entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	2 Government is not a major constraint	31	.28	.50	.000[a]	.000
Group 2	1 Government is a major constraint	80	.72			
Total		111	1.00			

Based on the Binomial Test which illustrates a high significance level of 0.000 at table 8.17, we reject the null hypothesis since P-value < 0.05. It can therefore be

claimed with 99% confidence level that the majority of Saudi entrepreneurs perceive government as the major constraint to business in developing the financial systems in Saudi Arabia.

Entrepreneurs who are planning to start a business and those who are operating a business have the same reaction towards the government, namely of being the major constraint on developing financial systems, as the sub-hypothesis shows below:

Ho: 5.1. There is no significant difference in the mean level of perception between entrepreneurs who are planning to start a business and those who are operating a business, on government as a major constraint on business in developing financial systems in Saudi Arabia.

Table 8.18 Government Regulation as the Major Constraint

Type of Entrepreneur: Plan to Start and Operating									
Independent Samples T-test									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	1.887	.172	-1.962	109	.052	-.466	.237	-.936	.005
Equal variances not assumed			-1.941	93.177	.055	-.466	.240	-.942	.011

At $\alpha = 0.05$, we fail to reject the null hypothesis since P-value > 0.052. So at 95% confidence level there is no significant difference in the mean level of perception between entrepreneurs who are planning to start a business and those who are operating a business, with regard to the government being a major constraint on developing financial systems in Saudi Arabia.

By comparison, the reaction of small and medium enterprises varies as the hypothesis and table shows below:

Ho: 5.2 There is no significant difference in the mean level of perception between small and medium enterprises, on government as a major constraint on business in developing financial systems in Saudi Arabia

Table 8.19 Government Regulation as the Major Constrain

Type of SME: Small and Medium									
Independent Samples T-test									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	5.857	.017	2.307	109	.023	.555	.241	.078	1.032
Equal variances not assumed			2.214	73.673	.030	.555	.251	.055	1.055

As P-value is equal to 0.030%, which is < 0.05, we reject the null hypothesis. The table 8.19 above depicted that at a 95% level of confidence, there is significant difference in the mean level of perception between small and medium enterprises, as to the government being a major constraint on development of financial systems in Saudi Arabia

Equally important, it is useful to take the analysis further and examine SMEs individually to find out the variances in their reaction. Therefore, the main hypothesis is implemented here for both small and medium enterprises. Table 8.20 depicts a significant result of P-value in table 8.20 equal to 0.00%, which allows to conclude that the majority of Saudi small enterprises perceive the government as the major constraint on business in developing financial systems in Saudi Arabia.

Table 8.20 Government Regulation as the Major Constrain

Type of SME: Small						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	2 Government is not a major constraint	16	.23	.50	.000[a]	.000
Group 2	1 Government is a major constraint	54	.77			
Total		70	1.00			

Consequently, with 99% confidence, it can be said that the majority of Saudi small enterprises do perceive government as the major constraint on business in developing financial systems in Saudi Arabia.

On the other hand, for the case of medium entrepreneurs, the inferential results in table 8.21 reveal insignificant results of P-value equal to 0.058%, as they do not

perceive government as the major constraint on business in developing financial system of the Saudi Arabia. At a 95% confidence level, the majority of Saudi medium entrepreneurs do not perceive government as a major constraint to business, in terms of developing financial system of the Saudi Arabia.

Table 8.21 Government Regulation as the Major Constrain

Type of SME, Medium						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	1 Government is a major constraint	26	.63	.50	.117[a]	.058
Group 2	2 Government is not a major constraint	15	.37			
Total		41	1.00			

8.5 PERCEPTION ON SAUDI ENTREPRENUERS AND SAUDI CAPITAL PROVIDERS

The Saudi government has recently implemented a new commercial law that has increased the demand for investing in SMEs, particularly by young people, who constitute the highest proportion of the Saudi population. Thus, the financial system of Saudi Arabia is under great pressure to fulfil the financing needs of SMEs.

Active participation of the private sector is present in the form of commercial banks, large enterprises, business service providers and other constituent parts of a portfolio of financial, managerial and technical support. However, no efficient and productive action can be taken without the intervention of the government in organising the SMEs sector financially.

Therefore, it is important to consider whether the entrepreneurs are satisfied with the efforts being made by the government and banks and if those endeavours fulfil their needs? Hypothesis 6 below investigates the perceived satisfaction of Saudi entrepreneurs towards the capital market in which they invest.

Hypothesis 6

- ***Ho: The majority of Saudi entrepreneurs do not know the appropriate financing for their business***

Table 8.22 Knowing Appropriate Finance

All Entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	1 Yes	52	.47	.50	.634[a]	.317
Group 2	2 No	58	.53			
Total		110	1.00			

The table shows insignificant result, which leads to failure to reject the null hypothesis, since P-value > 0.05. It can, therefore, be concluded at 95% confidence level that the majority of Saudi entrepreneurs are not aware of the appropriate financing for their business.

Broadly, it is evident that entrepreneurs always fail to have the appropriate fund for their business; this might be caused by insufficient diversification of funds or a lack of entrepreneurs' financial knowledge. Also, it might depend on the type of entrepreneurs or type of business.

As has been noted, the type of entrepreneurs may vary in terms of identifying the suitable finance to use; the sub-hypothesis below for both types of entrepreneurs and types of enterprise, is set out to find out whether there are variant differences or not.

Ho: 6.1. There is no significant mean difference between Saudi entrepreneurs who plan to start a business and those who are operating a business in terms of their knowledge on the appropriate financing for their business.

Table 8.23 Knowing Appropriate Finance

Type of Entrepreneur: Plan to Start and Operating									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	1.486	.226	2.045	108	.043	1.003	.491	.031	1.976
Equal variances not assumed			2.070	98.709	.041	1.003	.485	.042	1.965

At $\alpha = 0.05$, we reject the null hypothesis since P-value < 0.05. So, at 95% confidence level there is a significant mean difference between Saudi entrepreneurs who plan to start a business and those who are operating a business, with regard to their knowledge of the appropriate financing for their business.

Entrepreneurs who plan to start a business and those who are operating a business already vary in terms of knowing the appropriate finance for their business. The main hypothesis for entrepreneurs planning to start and operating a business is used to investigate the mean differences. As the significant inferential result in table 8.24 shows below, those entrepreneurs planning to start their business have the appropriate information related to the funds available for them.

Table 8.24 Knowing Appropriate Finance

Type of Entrepreneur: Plan to Start a Business						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	1 Yes	16	.36	.50	.072[a]	.036
Group 2	2 No	29	.64			
Total		45	1.00			

At $\alpha = 0.05$, we reject the null hypothesis since P-value is 0.036% < 0.05. At a 95% significance level, the majority of the Saudi entrepreneurs planning to start a business know the appropriate financing options for that business.

The results in table 8.25 depict that those entrepreneurs who are operating and already in the field do not know the appropriate fund for their business. Hence, we reject the alternative hypothesis since P-value equal to 0.228 > 0.05. At $\alpha = 0.05$, the majority of operating entrepreneurs have not identified the appropriate financing for their business.

Table 8.25 Knowing Appropriate Finance

Type of Entrepreneur, Operating A business						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	2 No	29	.45	.50	.457[a]	.228
Group 2	1 Yes	36	.55			
Total		65	1.00			

Entrepreneur's knowledge of the availability of the proper fund for their business that would most suits to their needs may vary according to the type of business.

Ho: 6.2. There is no significant mean difference between small and medium enterprises in their knowledge on the appropriate financing for their business

Table 8.26 Knowing Appropriate Finance

Type of SME: Small and Medium									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	11.622	.001	1.533	108	.128	.775	.506	-.227	1.777
Equal variances not assumed			1.463	70.606	.148	.775	.530	-.281	1.831

At $\alpha = 0.05$, we fail to reject the null hypothesis since P-value > 0.05. Accordingly at $\alpha = 0.05$, there is no significant mean difference between small and medium enterprises in their knowledge on the appropriate financing for their business.

In brief, as the results shows, there are variances in terms of knowing the proper fund between entrepreneurs who plan to start a business and those who are operating a business already, whereas there are no mean differences based on the size of business, i.e. small or medium enterprises.

PLS as a mode of finance has been used to finance large businesses successfully, but would be more suitable for financing SMEs. To test this proposition, the answers had to be collapsed into two groups: group 1 (agree and strongly agree) and group 2 (don't. know, disagree and strongly disagree) because we presently analyse the presence of agreement only and not its extent.

Hypothesis 7

- ***Ho: The majority of Saudi entrepreneurs do not perceive profit and loss-sharing contracts (PLS) to be more suitable for SMEs.***

Table 8.27 PLS More Suitable for SME

All Entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	2.00	34	.31	.50	.000[a]	.000
Group 2	1.00	77	.69			
Total		111	1.00			

The Binomial test result reveals a highly significant result of 0.000%, so we reject the null hypothesis since P-value < 0.05. So at a 99% confidence level, the majority of Saudi entrepreneurs perceive that profit and loss-sharing contract (PLS) is more suitable for SMEs.

Ho: 7.1 There is no significant mean difference between Saudi entrepreneurs who plan to start a business and those who are operating a business in their perception that profit and loss-sharing contracts (PLS) are more suitable for SMEs.

Table 8.28 PLS More Suitable for SME

Type of Entrepreneur, Plan to Start and Operating									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	12.397	.001	-3.285	109	.001	-.578	.176	-.927	-.229
Equal variances not assumed			-3.102	76.010	.003	-.578	.186	-.949	-.207

At α= 0.05, we reject the null hypothesis since P-value < 0.05. So, at α= 0.05, there is a significant mean difference between Saudi entrepreneurs who plan to start a business and those who are operating a business already, in terms of the perception that profit and loss-sharing contract (PLS) is more suitable for SMEs.

Table 8.29 PLS More Suitable for SME

Type of Entrepreneur: Plan to Start						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	2.00	18	.39	.50	.184[a]	.092
Group 2	1.00	28	.61			
Total		46	1.00			

At $\alpha = 0.05$, we reject the alternative hypothesis since the P-value > 0.05. As a result, at a 95% confidence level, it can be said that the majority of Saudi entrepreneurs planning to start a business do not perceive profit and loss-sharing contract (PLS) as being more suitable for SMEs.

Table 8.30 PLS More Suitable for SME

Type of Entrepreneur: Operating						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	1.00	49	.75	.50	.000[a]	.000
Group 2	2.00	16	.25			
Total		65	1.00			

At $\alpha = 0.05$, we reject the null hypothesis since P-value < 0.05. Thus, at a 99% confidence level, the majority of Saudi operating entrepreneurs perceive that profit and loss-sharing contract (PLS) as being more suitable for SMEs.

Ho: 7.2. There is no significant mean difference between small and medium enterprises in their perception that profit and loss-sharing contracts (PLS) are more suitable for SMEs.

Table 8.31 PLS More Suitable for SME

Type of SME, Small and Medium									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.613	.435	.807	109	.421	.152	.188	-.220	.524
Equal variances not assumed			.785	76.802	.435	.152	.193	-.233	.536

As the Independent Samples T-test show, at $\alpha = 0.05$, we reject the alternative hypothesis since P-value > 0.05. Thus, at 95% confidence level, there is no significant mean difference between small and medium enterprises in their perception that profit and loss-sharing contract (PLS) is more suitable for SMEs.

Hypothesis 8

- ***Ho: The majority of Saudi entrepreneurs do not believe that credit application conditions set by Saudi banks (Islamic and conventional banks) are very complicated.***

Table 8.32 Difficulty of Conditions set by Islamic Banks

All Entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	1 Difficult	70	.64	.50	.004[a]	.002
Group 2	2 Not	39	.36			
Total		109	1.00			

The inferential test shows a significant result of 0.002% towards conditions set by Islamic banks, at $\alpha = 0.05$, we reject the Ho since P-value < 0.05. Consequently, at a 99% confidence level, the majority of Saudi entrepreneurs believe that credit application conditions set by Islamic Banks are very complicated.

Table 8.33 Difficulty of Conditions Set by Conventional Banks

All Entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	1 Difficult	63	.59	.50	.081[a]	.041
Group 2	2 Not	44	.41			
Total		107	1.00			

In the case of conventional banks, the test shows at $\alpha = 0.05$ a significant result and so we reject the Ho since P-value < 0.05. So at 95% confidence level the majority of Saudi entrepreneurs believe that credit application conditions set by conventional banks are very complicated.

Entrepreneurs who are planning to start a business and those who are operating a business reach the same conclusion with regard to credit application conditions for both Islamic and conventional banks in Saudi Arabia, as the inferential results illustrate below:

Ho: 8.1. There is no significant difference in the mean level of difficulty perceived by entrepreneurs who are planning to start a business and those who are operating a business in terms of the credit application conditions set by Saudi banks (Islamic and conventional banks).

Table 8.34 Difficulty of Conditions set by Islamic Banks

Type of Entrepreneur, Plan to Start & Operating									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.159	.691	1.543	107	.126	.249	.161	-.071	.568
Equal variances not assumed			1.532	92.396	.129	.249	.162	-.074	.571

At $\alpha = 0.05$, we reject the alternative hypothesis since P-value > 0.05. So at a 99% confidence level there is no significant difference in the mean level of difficulty perceived by entrepreneurs who are planning to start a business and those who are operating a business in terms of the credit application conditions set by Saudi banks (Islamic and conventional).

Table 8.35 Difficulty of Conditions set by Islamic Banks

Type of Entrepreneur, Plan to Start & Operating									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	3.183	.077	-.008	105	.994	-.001	.189	-.377	.374
Equal variances not assumed			-.007	82.509	.994	-.001	.196	-.390	.388

At $\alpha = 0.05$, we reject the alternative hypothesis since P-value > 0.05. Thusly, at $\alpha = 0.05$, there is no significant difference in the mean level of difficulty perceived by entrepreneurs who are planning to start a business and those who are operating a business, in terms of the credit application conditions set by conventional banks.

In addition, small and medium enterprises are considered here to find out whether there are significant differences in the mean level of difficulty in credit application terms for both Islamic and conventional banks.

Ho: 8.2. There is no significant difference in the mean level of difficulty perceived by small and medium enterprises in terms of the credit application conditions set by Saudi banks (Islamic and conventional banks)

Table 8.36 Difficulty of Conditions Set by Islamic Banks

Type of SME: Small and Medium									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.474	.493	-.054	107	.957	-.009	.166	-.337	.319
Equal variances not assumed			-.052	74.277	.959	-.009	.172	-.352	.334

At α= 0.05, we reject the alternative hypothesis since P-value > 0.05. At 95% confidence level p-value = 0.959% and thus there is no significant mean difference in the level of difficulty perceived by small and medium enterprises, in terms of the credit application conditions set by Islamic banks.

Table 8.37 Difficulty of Conditions Set by Conventional Banks

Type of SME, Small & Medium									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.322	.571	-.231	105	.818	-.044	.192	-.425	.337
Equal variances not assumed			-.227	80.069	.821	-.044	.196	-.433	.345

At α= 0.05, we reject the alternative hypothesis since P-value > 0.05. At α= 0.05, there is no significant difference in the mean level of difficulty perceived by small and medium enterprises, in terms of the credit application conditions set by conventional banks.

Hypothesis 9

- ***Ho The majority of Saudi Arabian banks are not bridging the gap between supply and demand for credit.***

Table 8.38 Bank Assessment on SME

All Entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	1.00	19	.17	.50	.000[a]	.000
Group 2	2.00	92	.83			
Total		111	1.00			

At $\alpha = 0.05$, we reject the null hypothesis since P-value < 0.05. Thus, it can be argued at 99% confidence level that the majority of Saudi Arabian banks are reaching out to the business community to overcome the gap which exists between supply of and demand for credit.

The inferential binomial test in table 8.38 shows a high significant result of 0.000% that shows the efforts by Saudi banks to overcome the gap which exists between supplies of funds, represented by banks, and demand for credit.

Ho: 9.1. There is no significant difference in the mean perception score on Saudi banks' efforts on financing SMEs between entrepreneurs who are planning to start a business and those who are operating a business.

Table 8.39 Bank Assessment on SME

Type of Entrepreneur: Plan to Start and Operating									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	18.705	.000	-2.135	109	.035	-.153	.072	-.295	-.011
Equal variances not assumed			-2.014	75.541	.048	-.153	.076	-.305	-.002

As the t-test reveals, at $\alpha = 0.05$, we reject the alternative hypothesis since P-value > 0.05. Therefore at a 95% confidence level, there is no significant difference in the mean perception score on Saudi banks' efforts on financing SMEs when comparing entrepreneurs who are planning to start a business and those who are already operating one.

Ho: 9.2. There is no significant difference in the mean perception score on Saudi banks' efforts on financing SMEs between small and medium enterprises.

Table 8.40 Bank Assessment on SME

Type of SME: Small and Medium									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	9.355	.003	1.560	109	.122	.115	.074	-.031	.262
Equal variances not assumed			1.461	68.232	.149	.115	.079	-.042	.273

At $\alpha = 0.05$, we reject the alternative hypothesis since P-value > 0.05. So, at $\alpha = 0.05$, there is no significant difference in the mean perception score of Saudi banks' efforts at financing SMEs, as between small and medium enterprises.

As banks are working hard to overcome the gap between supply of and demand for credit, the question becomes about the entrepreneurs' opinions of banks as capital providers for SMEs? The hypothesis below considers this question:

Hypothesis 10

- ***Ho: Banks are not the appropriate capital provider for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide.***

Table 8.41 Financial Institution for Financing SMEs Using PLS

All Entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	1 Banks	57	.52	.50	.702[a]	.351
Group 2	2 Others	52	.48			
Total		109	1.00			

Regardless of the efforts by banks, entrepreneurs are of the opinion that banks are not the appropriate capital provider for SMEs, as the inferential result in table 8.41 shows. As the Binomial test shows an insignificant result of 0.351% at $\alpha = 0.05$, we reject the alternative hypothesis since P-value < 0.05. So at 95% confidence level banks are not the appropriate capital providers for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide.

Ho: 10.1. There is no significant difference in the mean perception score that banks are not the appropriate capital provider for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide between entrepreneurs who are planning to start a business and those operating a business.

Table 8.42 Financial Institution for Financing SMEs Using PLS

Type of Entrepreneur: Plan to Start and Operating									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	2.631	.108	-1.634	107	.105	-.595	.364	-1.317	.127
Equal variances not assumed			-1.688	104.035	.094	-.595	.353	-1.294	.104

At $\alpha = 0.05$, we reject the alternative hypothesis since P-value > 0.05. So, at a 99% confidence level, there is no significant difference in the mean perception score that banks are not the appropriate capital provider for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide, as between entrepreneurs who are planning to start a business and those operating one.

Ho: 10.2. There is no significant difference in the mean perception score between entrepreneurs who have small or medium enterprises that banks are not the appropriate *capital provider for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide.*

Table 8.43 Financial Institution for Financing SMEs Using PLS

Type of SME, Small & Medium									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.175	.676	-.270	107	.787	-.102	.377	-.848	.645
Equal variances not assumed			-.270	81.616	.788	-.102	.377	-.851	.647

At $\alpha = 0.05$, we reject the alternative hypothesis since P-value > 0.05 and at $\alpha = 0.05$, there is no significant difference in the mean perception score between entrepreneurs

who have small or medium enterprises that banks are not the right capital provider for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide.

As entrepreneurs think that banks are not the appropriate capital providers, they should have alternative capital providers in mind to fulfill their need of funds.

Hypothesis 11

- ***Ho: The majority of Saudi entrepreneurs do not believe that venture capital companies are more suitable to finance SME than other instruments.***

Table 8.44 Venture Capital Company as Financer of SME

All entrepreneurs						
Binomial Test						
	Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)	Exact Sig. (2-tailed)
Group 1	1 Agree & Strongly Agree	43	.39	.50	.028[a]	.014
Group 2	2 No	67	.61			
Total		110	1.00			

The Binomial test above reveals a significant outcome of 0.028% at $\alpha = 0.05$, so we reject the null hypothesis since P-value < 0.05. So at a 95% confidence level, the majority of Saudi entrepreneurs believe that venture capital companies are more compatible with financing SMEs than other instruments.

Ho: 11.1 There is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those who are operating a business that venture capital companies are more suitable *to finance SMEs than other instruments*

Table 8.45 Venture Capital Company as Financer of SME

Type of Entrepreneur: Plan to Start and Operating									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.004	.949	-1.640	108	.104	-.315	.192	-.696	.066
Equal variances not assumed			-1.618	92.158	.109	-.315	.195	-.702	.072

At α= 0.05, we reject the alternative hypothesis since P-value > 0.05. Thus, at α= 0.05, there is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those who are operating a business, that venture capital companies are more compatible with the need to finance SMEs than other instruments.

Ho: 11.1 There is no significant difference in the mean perception score between entrepreneurs who have small or medium enterprises that venture capital companies are more suitable *to finance SMEs than other instruments.*

Table 8.46 Venture Capital Company as Financer of SME

Type of SME: Small and Medium									
Independent Samples Test[a]									
	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Equal variances assumed	.001	.972	.755	108	.452	.150	.198	-.243	.542
Equal variances not assumed			.760	85.997	.449	.150	.197	-.241	.540

At α= 0.05, we reject the alternative hypothesis since P-value > 0.05. So, at a 95% confidence level, there is no significant difference in the mean perception score between entrepreneurs who have small or medium enterprises, that venture capital companies are more suitable to finance SMEs than other instruments.

8.6 CONCLUSION

The eleven hypotheses were investigated, pertaining to different aspects of financing SMEs, such as the Saudi financial institutions and capital providers. Another concern examined within this chapter was entrepreneurs' ownership structure, particularly whether it poses a barrier to the achievement of PLS concept of partnership. Also, the intervention of the government was established as being required by entrepreneurs. There is a discrepancy between the government and entrepreneurs in the Kingdom as the government invests extensive resources to develop the SME sector whereas Saudi

entrepreneurs believe that the government is the major constraint on the SME business.

The results in the preceding sections show that entrepreneurs have a fair level of knowledge of Islamic banking products, but that there are mean differences between the two types of entrepreneurs: entrepreneurs planning to start their business appear to have less knowledge of Islamic banking products than operating entrepreneurs; no such differences are observed in relation to business type.

Saudi entrepreneurs believe that they have a promising future, to which the Saudi financial sector environment contributes. Entrepreneurs running small-size businesses perceive the government as the major constraint on business in developing financial systems in Saudi Arabia, whereas entrepreneurs who have medium-size businesses do not perceive government as the major constraint to business in developing financial systems.

As it has been evidenced, the lack of partnerships bears no correlation with either entrepreneurs starting or operating a business, nor its size. In both cases, entrepreneurs planning to start or already operating a business and small or medium enterprises, partnership has nothing to do with the type of entrepreneurs or the type of business.

Entrepreneurs seem to be unsuccessful in securing the appropriate funding for their business; this might be caused by insufficient diversification of funding provision or by the dearth of entrepreneurs' financial knowledge. Also, it might be dependent on the type of entrepreneurs or the type of business. This will be discussed in detail within the next chapter.

Saudi banks are doing their best to overcome the gap which exists between supply of and demand for funds. However, entrepreneurs would prefer to be funded by other financial institutions rather than by banks. They also believe in the compatibility of venture capital with the task of providing finance for SMEs.

CHAPTER NINE
CONTEXTUALISING THE FINDINGS:
AN INTERPRETATIVE DISCUSSION

9.1 INTRODUCTION

This research is an attempt to investigate the potential of PLS modes of financing for SME funding in Saudi Arabia. Therefore, it has revolved around two important issues: SME financing, and use of Islamic financing for the funding of SMEs.

SMEs' economic and social importance cannot be under-estimated worldwide. The problems of funding SMEs also seem to cross national boundaries, because complete information about them is not always available to providers of finance. Some countries have more sophisticated systems for overcoming these problems. In the case of Saudi SMEs, it appears that they face difficulties meeting financing conditions set by banks and other types of credit. Entrepreneurs in Saudi Arabia are not satisfied with existing financial institutions and find loan procedures very complicated and confusing. The gap between the products offered by Saudi commercial banks and other financial institutions and customers were also considered. The conditions on providing funds set by Saudi banks and other financial institutions for SME investment in the Kingdom are not compatible with the nature of the SMEs' needs.

From the banks' and financial institutions' points of view, they face a lack of reliable information and appropriate instruments of management provided by Saudi entrepreneurs. Whereas the Saudi banks have ample liquidity, three times greater than the international norm, they have no clear strategy or desire to support SMEs as they face pressure from the government and also from the young demographics of the society, which necessitates job creation . As a response to this policy need, some Saudi commercial banks initiated middle-market programmes in order to provide loans for medium-large enterprises ranging from SAR 5 to 50 millions.

The emerging Islamic finance can and does provide important alternative financing opportunities for SMEs, alongside other areas. Broadly, Islamic law (*Shariah*) forbids the charging of interest (riba). Therefore many Saudi entrepreneurs, who carry out their activities in accordance with Islamic law, wish to use financial instruments which are allowed under the umbrella of Islamic law, so as to invest and finance commercial projects. As the result, banks in Saudi Arabia commonly provide facilities enabling financing by way of such arrangements.

Islamic banking in Saudi Arabia has become widespread and is involved in worldwide transactions, which is mainly down to three reasons. Firstly, the Kingdom's historical and present identification with Islam, secondly, the support given by the Kingdom to existing Islamic banks and to the International Association of Islamic Banks. Thirdly, and importantly, there is a rapid increase in demand in Saudi Arabia for banking products and services that comply with Islamic Shariah principles. The Saudi banks have been supported and encouraged by SAMA to offer *Shariah* compliant financial products to the Saudi market. Consequently, Saudi banks provide a range of Islamic financial products and services to meet the demand for such products (Hamad Al-Sayari, 2007).

Due to such positive developments, the market share of Islamic financial products now accounts for 58%, compared to 42% of the market share of conventional banking, a huge difference when compared to 2007 figures. To clarify, 95% of individual finance is Islamic whilst in 2007 the banking share was 28%, while conventional banking transactions amounted to 72% at that time (Al-Shahidi, 2008). Nevertheless, Islamic banking customers feel that the Saudi banks do not create authentic Islamic financial products but merely Islamise conventional financial products. Al-Zamel in his survey of the importance of awareness of the differentiation between Islamic financial products and conventional ones, found that 90% of the banks' client and employers recognise the importance of awareness regarding Islamic financial products (M. Al-Hamazani, 2007).

Under such demand and supply conditions, it is normal to expect some SMEs expressing interest to finance their ventures at the starting phase or in later stages through Islamic finance. Thus, this study aimed at gauging the perception of SME

owners and potential starters regarding their demand for Islamic-finance oriented PLS financing. To accomplish this, as detailed in an earlier chapter, a survey questionnaire was implemented in Saudi Arabia, which was analysed through descriptive and inferential statistical methods, the results of which were presented in the relevant chapters.

The aim of this chapter, hence, is to combine some main results of the empirical chapters so as to conduct an integrated discussion of the hypotheses identified earlier, whereby it will be possible to highlight the contribution of this study. Thus, this chapter is divided into four main issues. The first issue consisted of hypothesis relating to the entrepreneur's level of knowledge and awareness of Islamic banking products. The second issue covered is Saudi SMEs and financial sector, studied through two hypotheses, while the third issue discussed is related to entrepreneurship and business ownership structure. The fourth issue is the testing of various hypothetical questions relevant to Saudi entrepreneurs and Saudi capital providers.

9.2 AWARENESS OF ISLAMIC BANKING PRODUCTS

For SMEs operations and finance, efficiency is crucial. An important aspect of efficiency is related to financial knowledge, which facilitates the process of locating the appropriate financial products for a particular purpose. Thus, in searching for the awareness of Islamic banking products amongst the Saudi SME operators and beginners, the following hypotheses were tested.

Hypothesis 1

- ***Ho: Majority of Saudi entrepreneurs do not have a fair level of knowledge of Islamic banking products.***

Based on the results depicted in table 8.1 in Chapter 8, which is the product of one sample test, null hypothesis has to be rejected as it shows 0.01% of significance. In other words, since P-value =0.01% < 0.05, and we accept the alternative hypothesis (Ha) implying that the majority of Saudi entrepreneurs have a fair level of knowledge on Islamic banking products.

Table 9.1 Motivation to deal with Islamic Finance

P2Q09-Which of the following attracted you to deal with Islamic financial instruments?		Percent	Mean-value	Std. Deviation
Valid	Religiosity	89.2	1.27	.884
	Profitability	3.6		
	Competitive services	.9		
	More access to finance	4.5		
	Other, please specify	.9		
	I do not prefer any kind of fund	.9		

As corroboration of this result, as table 9.1 shows, 89.2% of the sample used Islamic financial instruments only for religious reasons, despite economic or profitability concerns. This is an expected result in a conservative society such as Saudi Arabia. Respondents who chose 'Other' reasons comprised 0.9% of the sample and another 0.9% indicated that they prefer not to be financed by either Islamic banks or conventional banks. Only 3.6% of the sample looked at Islamic finance as a profitable method, thus in their perception dealing with Islamic banks had more value as the case with conventional banks.

It should be noted that Saudi entrepreneurs deal with an Islamic banks or Islamic financial instruments as way of practising Islam, as it appeared in sample Q09 in table 9.1 above. More of 89.2% of the entrepreneurs who dealt or were going to deal with Islamic products did so for religious reasons only. Most of the Saudi banks' clients do not have the level of knowledge that gives them the ability to recognise the legitimacy of the contract. Consequentially, they depend entirely on some scholar's approval and check only for the compatibility of the transaction authorised by them. Although not all of the Islamic banks' clients recognise the legitimacy of the Islamic banking products, they would still deal with Islamic products due to their trust to the decisions and structuring of Shariah boards.

The fact of entrepreneurs having a fair level of knowledge of Islamic banking products is expected, as Saudi Arabia has a religiously conservative population. Also, as Islam forms the backbone of society, people pay attention to their religious education.

However, the results in the previous chapter (table 8.2) show that there is a significant mean difference between Saudi entrepreneurs who plan to start a business and those

who are operating a business, in terms of their general knowledge on PLS as an Islamic banking product. Entrepreneurs planning to start their business seem to have less knowledge of Islamic banking products than operating entrepreneurs. As the inferential results show, the majority of entrepreneurs planning to start their business do not have required knowledge of identifying *mudharabah* or some other financial product.

9.3 SAUDI SMEs AND THE FINANCIAL SECTOR

The Saudi SMEs are the backbone of the private sector investment as they account for more than 70% of the trading, services and industrial sectors in Saudi Arabia market, and are expected to contribute more than 50% of total industrial production in the foreseeable future (Otsuki, 2002). SMEs are also the main source of job creation, encouraging entrepreneurial culture, eliminating poverty, equally important in developing new products and services as well as technological innovation. Thus, their contributions to the economy stem from various areas of economic life.

Knowing of the dynamic contribution of the SMEs to the economy, the Saudi government has established specialised banks to help the development of SMEs. The Saudi Credit Bank (SCB) is a state-owned bank providing a social micro loan to individuals as part of a SME lending programme. The attempt by the government is intended to improve the financial structure of the bank to enable it to provide loans to SMEs, of up to SR 200,000. The other government-owned financial institution is the Saudi Industrial Development Bank (SIDB), which has extended practically interest-free loans for up to 50 % of the cost of projects that are considered financially viable.

In the case of Saudi commercial banks, from November 2000 until January 2001, the Saudi American Bank was able to add more than 100 new customers from the middle-market investors. Riyadh Bank went further and targeted smaller investors and offered loans starting from SR 1 to 5 millions[7]. Only Bank Al-Bilad has directly committed to finance SMEs in the Kingdom, (Dr Mohammed Al-Awad 2005); the

[7] -As the Riyadh Bank defined them small

funding of SMEs is the first priority of the bank's strategy under the *Shariah* law and supervision. The Saudi entrepreneurs are expected to have a reliable future within the environment of the Saudi financial sector, which is tested by the following hypotheses:

Hypothesis 2

- ***Ho: The majority of Saudi entrepreneurs do not think that the environment of the Saudi financial sector is capable of absorbing more SME and guiding them towards a prolonged profitable existence.***

Hypothesis 3

- ***Ho: The majority of Saudi entrepreneurs do not perceive the government as the major constraint on business in developing financial systems in Saudi Arabia.***

Based on the results in table 8.14 (Capability of the Saudi financial sector to absorb more of SME) in the previous chapter, at 99% confidence level, we conclude that the majority of Saudi entrepreneurs think that the Saudi financial sector is capable of absorbing more SMEs and guiding them towards a profitable long-term future.

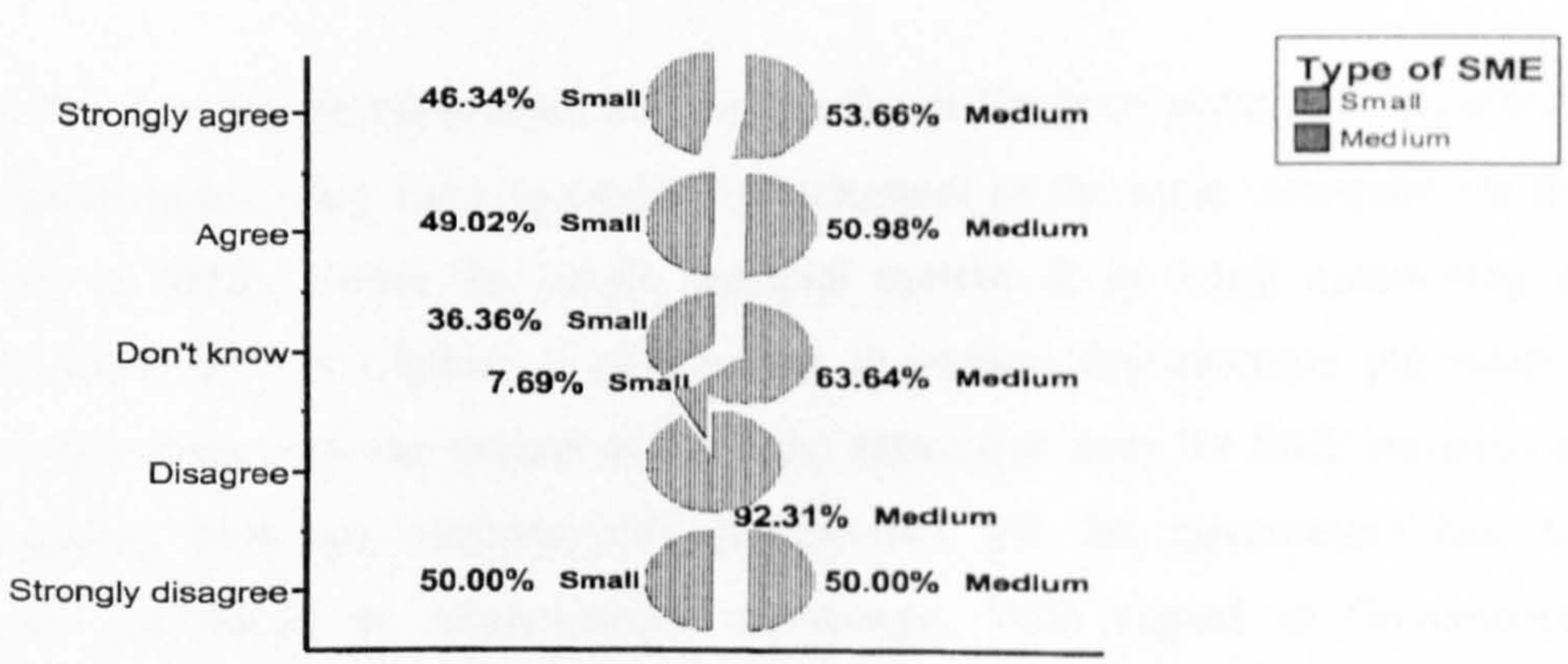
This optimism is based on the belief that the Saudi financial sector has developed strategies to develop the SME sector and help businesses to fulfil their various objectives. As the results show, entrepreneurs planning to start and those already operating a business have the same view regarding the capability of the Saudi financial environment to absorb more SME and ensure their success.

To support the findings of this research on this issue, it is important to mention a study conducted by the Council of Saudi Chambers in 2003 on SMEs in Saudi Arabia. The results show that entrepreneurs were optimistic regarding the Saudi financial market and 39.7% of the sample believed that the SME market in Saudi Arabia would develop well; 31.9% had a negative expectation and 28.4% thought of having better steady SME market.

The environment of the Saudi business sector in terms of absorbing more SMEs and guiding them towards a successful economic life is imperative in this analysis. Therefore, when respondents were asked about their views of the capability of the

government, their responses were as follows: 43.2% of them agreed that the business sector in Saudi Arabia is capable of absorbing more SMEs and guiding them to a long and successful economic future, 29.2% of the sample was more optimistic and answered 'strongly agree', 14.4% 'did not know', 7.2% 'disagreed' and 5.4% 'strongly disagreed' (see chapter 6). As the findings indicate, entrepreneurs' future strategies for the next three years were optimistic. In addition the result in table 6.21 (Q43) chapter 6 showed 57.6% of the sample having plans to enlarge the business, 20.7% of them planning to enter a new business, 15.2% of them maintaining the same size and 4.3% of them reducing it. Of those respondents disagreeing, 92.31% were medium businesses and so entrepreneurs have all the trust in the potentiality of successful and healthy existence and life for SME in the Saudi market.

Figure 9.1 Capability of Saudi Financial Sector



The results from Independent Sample T-test in table 8.15 in the Chapter 8 shows also that there is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those operating already, that the Saudi financial sector environment is capable of absorbing more SMEs and ensuring their success.. Moreover, according to small and medium businesses, there is no significant mean difference either, as the sub-hypothesis in table 8.16 shows.

The fact that all types of entrepreneurs and types of businesses have the same level of trust on the Saudi market emphasizes the general positive outlook.

The trust entrepreneurs have on the Saudi economy reflected the government's ongoing diversity of strategic policies of development. The main instrument in the development of SMEs through the Council of Saudi Chambers is to contribute to a proper working environment and encourage cooperation with the Saudi Chambers and relevant support and organisation of SMEs, and act as a link between the chambers of commerce and the development of the service sector. Some general objectives being set to encourage the development of entrepreneurship and leadership among young people and that through coordination with the concerned government sector and the collection and consolidation of the efforts made by those sectors. Government policies mainly focusing on financing of SMEs by promoting the use of international financial programs aimed at developing SMEs, and benefit from successful international experiences in the field of SMEs financing, eventually enhancing the competitiveness and exporting potentials of SMEs.

Despite the trust that entrepreneurs have in the Saudi financial sector and the efforts by the government, they have recognised government as the main constraint for the financing of SMEs within the Saudi financial system. It is worth mentioning in ranking order Q31 in Chapter 6 government regulation (bureaucratic procedures, labour regulations etc) was ranked as the most restrictive item for SME business in the Kingdom from the entrepreneurs' perspective, yet the government has not positively intervened to entrepreneurs' advantage. With regard to Government regulation as a major constraint on the financial system: 37.8% of the sample opted for 'to a great extent', 34.2% chose 'to some extent', 13.5% chose 'to a limited extent', 8.1% chose 'to an average extent' and 6.3% chose 'not at all' (see table 6.3).

Table 9.2 Source of Constraint on Businesses, (Government Regulation)

Government regulation (Bureaucratic procedures Labour regulation etc.)		Percent	Mean-value	Std. Deviation	Ranking order
Valid	Not at all	6.3	3.8378	1.24711	1
	To a limited extent	13.5			
	To an average extent	8.1			
	To some extent	34.2			
	To a great extent	37.8			

The Saudi Seventh Development Plan spanned the period from 1999 to 2004 and dedicated more resources to the development of SMEs. One of the strategies adopted by the government towards this end was to facilitate SMEs' financial procedures and regulation. In 2004 the Saudi Industrial Development Bank (SIDB) established a programme to overcome the gap between commercial banks and SMEs, by minimising credit risk. The principal function of the programme is to provide guarantees to financial institutions in order to reduce the risk inherent in lending to SMEs. Nevertheless, several years are needed to gauge the effects and yet, entrepreneurs still believe that government is the main constraint on the financial system.

Due to the blame attributed to the government by participants for limiting financial development, the hypothesis sets out to find out the influence of the government on the financial system, from entrepreneurs' point of view. Based on the Binomial Test (table 8.17 chapter 8) the government is perceived as a major constraint on the financial system, which illustrates a high statistical significance, indicating that the majority of Saudi entrepreneurs perceive the government as the major constraint on business, in developing financial systems in Saudi Arabia.

Out of the entrepreneurs taking part in this research, both those planning to start a business and those who are operating one, had the same reaction towards the government as being the major constraint on developing the financial systems (see, Table 8.18, Government regulation as the major constraint, Type of Entrepreneur: Plan to Start and Operating).

By comparison, however, the reaction of SMEs varies (see Table 8.19 Government regulation as the major constrain, Type of SME: Small and Medium), as the findings

indicate there is a significant difference in the mean level of perception between small and medium enterprises, as to whether the government is a major constraint on business in developing financial systems in Saudi Arabia

Equally importantly, it would be meaningful to further examine small and medium enterprises individually to find out the variances in their reaction. Thus, the main hypothesis is tested here for both small and medium enterprises. The results show a significant result--that the majority of Saudi small enterprises do perceive the government as the major constraint on business in developing financial systems in Saudi Arabia. In contrast, for medium entrepreneurs, the inferential Binomial Test in Chapter 8 reveals insignificant results as they do not perceive government as the major constraint on business in developing financial systems of Saudi Arabia. Medium businesses led by relatively well-off entrepreneur, who maintain good relationships and network with the authorities to facilitate their businesses, are not comparable to small businesses, as they came from lower economic strata of society and have fewer connections to help their businesses.

Entrepreneurs complain about the bureaucratic procedures and red tape in government offices. Also, government policies are not coming into effect immediately, presumably because of the prioritising by those in charge of implementing the policies. The government responded to the financial need of the SMEs sector in early 2000, by placing an emphasis on its development plan, which was perceived as a delayed response; Saudi entrepreneurs were expecting quicker reactions. This inconsistent timing of government policy did not give confidence to the SME operators, and therefore they adopted a negative attitude towards government policies. Consequently, they continued complaining about the government's performance in this regard.

9.4 ENTREPRENUERSHIP AND BUSINESS OWNERSHIP

One of the main concerns of SMEs is that their enlargement and competitiveness are restricted by a lack of financial accessibility. The initial high-risk potentiality of new SMEs, which entrepreneurs in general have failed to address, puts capital providers in

high-risk involvement with these businesses. Thus, credit-limited diversification of the type of funding products being offered by capital providers leads entrepreneurs to launch businesses on sole proprietorship bases. Assuming that Saudi entrepreneurs avoid business partners to reduce risk, the result is the existence of fewer financial institutions specialising in the funding of SMEs and a lack of financial depth in the Kingdom of Saudi Arabia. More than 50% of Saudi entrepreneurs are either sole proprietors or have inactive partners who would not intervene in the daily business operation. This would be justified as they have limited financial depth, less financial diversity in the Kingdom and lack of access to finance. The hypotheses below, thus, aim to investigate the attitudes of SME owners towards partnership:

Hypothesis 4

- ***Ho: The majority of Saudi entrepreneurs do not have partnerships.***

Hypothesis 5

- ***Ho: The acceptable percentages of ownership of a prospective partner and expected work to be handled by partner are independent of each other.***

Table 8.6 in Chapter 8 presents the ownership structure for all entrepreneurs within the sample. The findings indicate that the majority of the Saudi entrepreneurs do not have partners.

This should be interpreted with concern as it indicates the absence of sense of partnership, because it appears that entrepreneurs seek funds for their business as well as preferring to maintain sole proprietorship. In Chapter 7, when Q32 was cross-tabbed with entrepreneurial categories, the total results show: 64.2% of entrepreneurs financed the initial start-up costs of the business through self-financing or personal savings; 18.9% of entrepreneurs financed it through relatives, friends or inheritance. 8.4% of entrepreneurs financed the initial start-up cost via partnership with relatives. Furthermore, only 1.1% of entrepreneurs financed the initial start-up cost via a conventional bank and 7.4% of them through Islamic funding.

Entrepreneurs planning to start a business and operating a business already have the same reaction toward partnership. Partnership status is independent of the type of entrepreneur (planning to start business or operating a business already) or type of

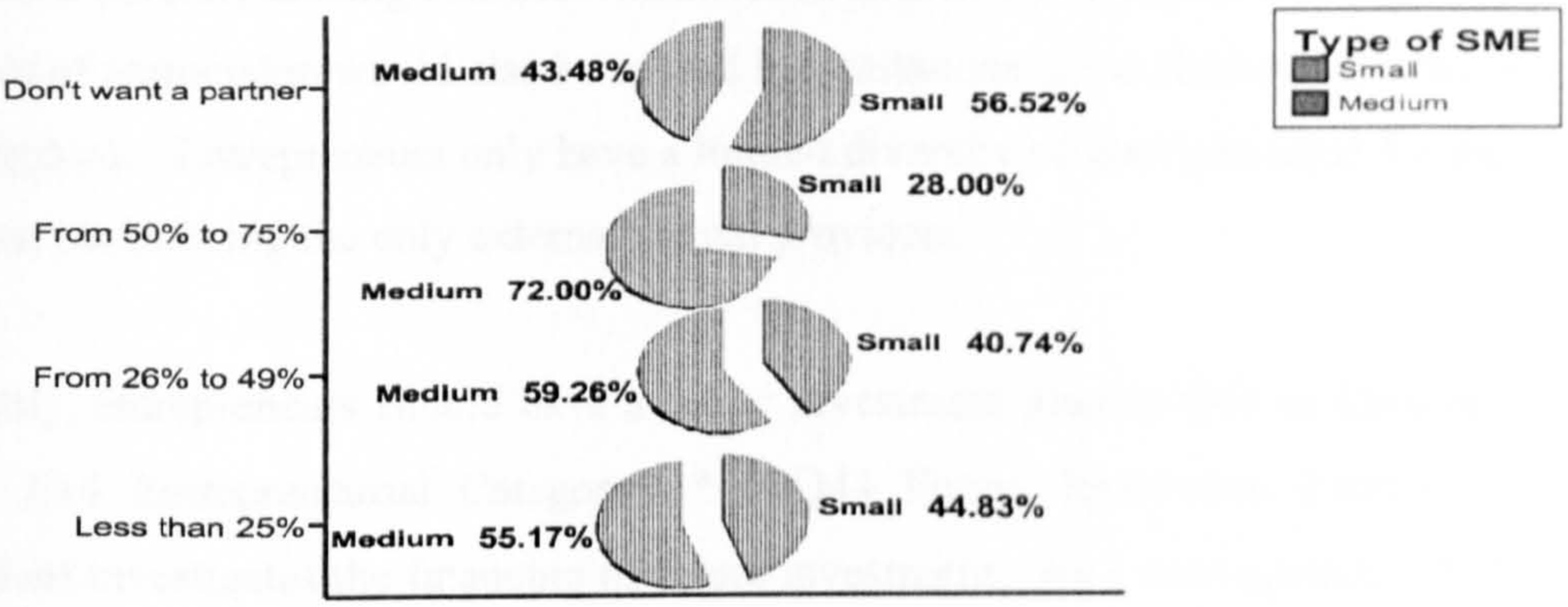
business (small or medium enterprise). At a= 0.05, we fail to reject the null hypothesis and partnership is independent of the type of enterprise (small or medium enterprise, Table 8.8).

In brief, the status of partnership has no correlation with either entrepreneurs starting or operating a business or small or medium enterprises. In order to get a deeper understanding of the Saudi entrepreneurs' attitudes toward partnership the entrepreneurs were asked, assuming they had a business partner, as to whether there is a correlation between the percentage of ownership and work handled by the partners. Hypothesis five aim to discover the main differences, if any.

Table 8.9 in Chapter 8, depicting the results of the correlation between percentage of ownership and expected work to be done by partner for all entrepreneurs, shows the acceptable percentage of ownership of a prospective partner and expected work to be handled by partner are independent of one another. Thus, there is no correlation between the percentage of ownership and the work undertaken by partners. Also, the statistical results indicate that the acceptable percentage of ownership of a prospective partner and expected work to be handled by partner are independent for both entrepreneurs (planning to start a business or operating a business already) and the type of enterprise (small enterprise or medium enterprise). So, there is no correlation between percentage of ownership and work handled by the partner (see Chapter 8, Table 8.10)

Entrepreneurs rely heavily on self-financing or personal savings. Saudi banks, both Islamic and conventional, account for only 8.5% of the funding for SME fund-seekers in the sample. Chapter 6 shows respondents' attitudes towards business partnerships and the acceptable percentage of the businesses that could be owned by a partner: 42.3% SME could give a partner from 26% to 49%; 20.7% could accept a partner with less than 25% and 21.6% needed no partner. No more than 15.3% of the sample could give a partner from 50% to 75%. Figure 9.2 depicts that the medium businesses are more willing to have partners and give them more than 50% of the share in the business.

Figure 9.2 Acceptable Percentage of Ownership according to the Size of Business



Entrepreneurs were also asked to identify the main reason for starting a new business. The results show that 41.44% of the sample undertook their business venture in order to become self-employed and gain more independence. 22.5% of the sample did so to improve their life-style and 20.4% of the sample because the expected income from self-employment would be greater than the income from a salaried position. So, the largest portion of the sample undertook the venture for a personal reason, which is to gain independence. Therefore, having a partner may undermine this objective.

To corroborate the results of this research, a study conducted by the Saudi Chambers of Commerce in 2003 should be mentioned: 91.4% of the SMEs included in the survey were sole proprietors and 8.6% had partners. Also, 99.1% of the capital was owned by the entrepreneur and bank loans accounted only for 0.9% of the amount. Independence is one of the characterisation aimed at by entrepreneurs, but this should not be the only advantage of operating such a venture. In this research sample, 29.1% of the sample chose lack of access to finance or liquidity constraints 'to a great extent', 27.3% chose 'to some extent', 20.0% chose 'to an average extent', 20.0% chose 'to a limited extent' and 3.6% chose 'not at all'. Uncompetitive market for funds: 45.0% of the sample chose uncompetitive market for funds 'to a great extent', 15.6% chose 'to an average extent', 14.7% chose 'to some extent', 12.8% chose 'not at all' and 11.9% 'to a limited extent'.

Entrepreneurs are keen to retain their sole proprietary ownership and to have full control over the business. Therefore, having external funding would force them to deal with a partner, causing conflict which would negatively affect the business. The absences of partnership would also be caused by limitations in the financial systems in the Kingdom. Entrepreneurs only have a limited diversity of fund providers for their business, banks being the only external capital providers.

Obviously, entrepreneurs should have a future investment plan so Q44 in Chapter 7, (Table 7.14 Entrepreneurial Categories * P5Q44 Future Investment Fund Cross tabulation) investigates the financing of future investment. As a consequence, 55.4% of total entrepreneurs would use personal savings/retained earnings of the business and 17.4% would seek funding from Islamic banks. 12.0% of entrepreneurs would consider having a business partner. 6.5% of entrepreneurs would seek funding from conventional banks. Therefore, there is a demand for funds, but not from financial institutions.

Overall, entrepreneurs desire to have independence, and about 63% of the sample would have partner and let the partner have up to a 49% of the share of the businesses. Thus, Saudi entrepreneurs' ideal funding would be one that can both support them and allow retention of independence/control over venture. This type of fund would allow partners to share reliabilities with entrepreneurs while the latter enjoy the daily business activities, with no interference by the partner. This result indicates that introducing *musharakah* or *mudharabah* contracts would be compatible with these expectations.

9.5 SAUDI ENTREPRENUERS AND SAUDI CAPITAL PROVIDERS

In 2004, the Saudi government enacted a new commercial law that has increased the demand for investing in SMEs, particularly by young people, who constitute the highest proportion of the Saudi population. Thus, the financial system of Saudi Arabia is under great pressure to fulfil the financing needs of SMEs. Moreover, the government is now taking measures to fulfil the financing needs of SMEs. For example, a series of conferences is being held throughout Saudi Arabia to initiate

academic discussion and activate funding opportunities for these ventures. The Saudi Basic Industries Conference (SABIC) listed 147 products that may be used as potential business opportunities for SMEs to engage with. Similarly, the Government, through the Human Resource Development Fund, has expressed intention to provide loans and financial assistance to those specialised trading organisations that could train young Saudis on specific SMEs. Hence, it appears that a great amount of effort has already been made towards the establishment and smooth running of SMEs.

Active participation of the private sector in the financial sector represented by commercial banks, large enterprises, business service providers and the availability of financial, managerial and technical support would not be sufficient without the intervention of the government in reorganising the financial environment of SMEs.

The active policies pursued by SAMA lead to growing demand for products and services compatible with *Shariah,* with the objective of facilitating the financial access by SMEs. In addition, SAMA facilitates Islamic bank operations by requiring that no restrictions are imposed on Saudi banks with regard to implementing any viable organisational model for delivering Islamic banking products and services. As this study shows, not all Saudi banks are entirely Islamised. However, they have partially Islamised their products and invest heavily in all products and services that are in accordance with *Shariah*. The variety of Islamic products and services adopted by Saudi banks will deliver fair prices by intensifying the competition and reducing the cost. All banks desire to offer competitive Islamic products to decrease their reliance on conventional modes of financing.

In addition, the gap between the products offered by Saudi banks and other financial institutions and what customers in the form of SMEs operators request is also considered. The conditions of funds set by Saudi banks and other financial institutions for SMEs in the Kingdom are not compatible with the realities of SME needs. According to a survey conducted by the Saudi Chamber of Commerce in 2003, most SMEs have current accounts with a bank, and loans are only used for financing daily needs of the companies' activities, unanticipated actions and accumulated loans. 71% of the sample shows that they do not use other banking

products, while 61% shows that they use deferred sale to finance their need of liquidity.

Therefore, the following question is raised: are entrepreneurs satisfied with the efforts being made by the government and banks and does that endeavour fulfil their needs and desires? The hypothesis below investigates the satisfaction of Saudi entrepreneurs towards the capital market they invest in.

Hypothesis 6

- ***Ho: The majority of Saudi entrepreneurs do not know the appropriate financing for their business***

As the result, Table 8.22 in Chapter 8 shows that the majority of Saudi entrepreneurs do not know about the appropriate financing for their business. A further summary in table 9.3 shows that 52.7% did not know what type of finance was most appropriate for their business. Therefore, more knowledge of investment and finance is required. However, 47.3% knew what the appropriate finance for their business was, and 27.02% had the ability to specify the kind of finance they wished: 8.2% needed mark-up finance, 12.7% required PLS finance, 4.5% needed financial support, only 0.9% asked for government support and 0.9% needed personal support.

Table 9.3 Financial Knowledge

P1Q07-Do you know what kind of financing is more appropriate for your business?		Percent	Mean-value	Std. Deviation
Valid	Yes, please specify	20.0	4.72	2.567
	Mark-up finance	8.2		
	PLS	12.7		
	Financial Support only	4.5		
	Government Support	.9		
	Personal fund	.9		
	No	52.7		

As mentioned above, the majority of Saudi entrepreneurs do not know the appropriate financing for their business as 52.7% of the sample did not know what type of finance was more appropriate for their business. Before the importance of such awareness is addressed, the question should be raised whether it is an entrepreneur's duty to have certain financial knowledge or if it is the job of the capital providers; it could also be a shared responsibility. In other words, there is an understanding in the Saudi business environment that an entrepreneur is a person who has the talent to adopt and deal with

risk and future uncertainties, so he/she should not be expected to be financially qualified as well. However, in a globalised dynamic business environment entrepreneurs should have the ability to recognise the proper fund for the projects when he/she has the offers from capital providers. To achieve such skills of financial awareness, entrepreneurs should undertake training offered by capital providers.

Table 7.6 in Chapter 7 (Entrepreneurial Categories * P1Q7 Kind of Finance Cross tabulation) tested the financial awareness of entrepreneurs in the preliminary stages as well as in the operational stages of their business, with regards to their entrepreneurial categories. The results illustrate that 33.3% of entrepreneurs planning to start a new business knew the kind of financing that is appropriate for their business while 13.3% of this group believe that PLS is a more appropriate method of finance for the business. The results demonstrate that from entrepreneurs with an operating business, 48.5% know the kind of finance they wish to have, as 11.4% expressed that they need mark-up finance and 11.4% also believed they need financial support only. Entrepreneurs with an operating business and a full-time government job are more aware of the kind of finance needed than the previous two categories, as 64.1% of them knew which method of funding is more appropriate for their business. Lastly, 62.5% of entrepreneurs with an operating business and a full-time private job assumed they knew the kind of finance that suited their proposals, as 25% in this category seek PLS.

Broadly, entrepreneurs always fail to assess the appropriate funding for their business; this might be due to insufficient awareness of diversification of funds or a lack of entrepreneurs' financial knowledge. Also, it might depend on the type of entrepreneur or type of business. As has been noted, entrepreneurs who plan to start a business and those who are operating a business are varied in terms of their knowledge about the appropriate finance for their business, which is one of the main hypotheses (testing the knowledge of entrepreneurs planning to start and operating a business). The significant inferential result shows that those entrepreneurs planning to start know the appropriate fund whereas entrepreneurs who are operating and already in the field do not know the best funding for their business, as the results illustrated in the previous chapter. Entrepreneurs planning to start their business would have more knowledge in terms of knowing the appropriate funding for their projects for two reasons. Firstly,

there is a generational difference, as most of the new entrepreneurs are young and well educated. Secondly, the Saudi banks invest heavily in the financial advertisements due to aggressive competition prevailing in the market in the Kingdom. There is no significant mean difference between small and medium enterprises in their knowledge of the appropriate financing for the business.

In brief, there are differences in the mean value, in terms of knowing the proper fund between entrepreneurs who plan to start a business and those who are operating a business, whereas there are no mean differences in the size of business, small or medium enterprises. Size of business results in no mean differences, due to the difficulties of classifying small and medium enterprises. Hence, what is considered medium by the Council of Saudi Chamber of Commerce's definition is seen as small in the Saudi banks' classifications, as well as having differences among the sectors.

PLS as a mode of finance as well as investment tool has been used to finance large businesses successfully, taking into consideration that it would be more suitable for financing SMEs. Djabiev, CEO of Badr-Forte Bank in Moscow, which is the sole Russian Islamic bank, stresses the reasons why SME financing should be positioned for Islamic banking and Islamic financial instruments is that "it deals directly with the real economy; creates employment; involves the productive use of resources especially capital and finance; and contributes directly toward the alleviation of poverty". Through the PLS mode of finance, entrepreneurs would not be left alone with the fund and must pay it back in a certain time as the case with conventional finance. The capital providers will invest the money in sharing bases which make obligatory for the financer to pay more attention to the feasibility and the success of the projects and use his/her experience to become involved in the proper financial instruments. However, mark-up financing does not have such a facility, as within that framework the entrepreneurs are left alone with *Shari'ah* legitimacy contract and bear all the liabilities. Therefore, this research also attempted to test the perceptions of the entrepreneurs regarding PLS mode of financing being the more appropriate financing for SMEs.

Hypothesis 7

- ***Ho: The majority of Saudi entrepreneurs do not perceive profit and loss-sharing contracts (PLS) to be more suitable for SME.***

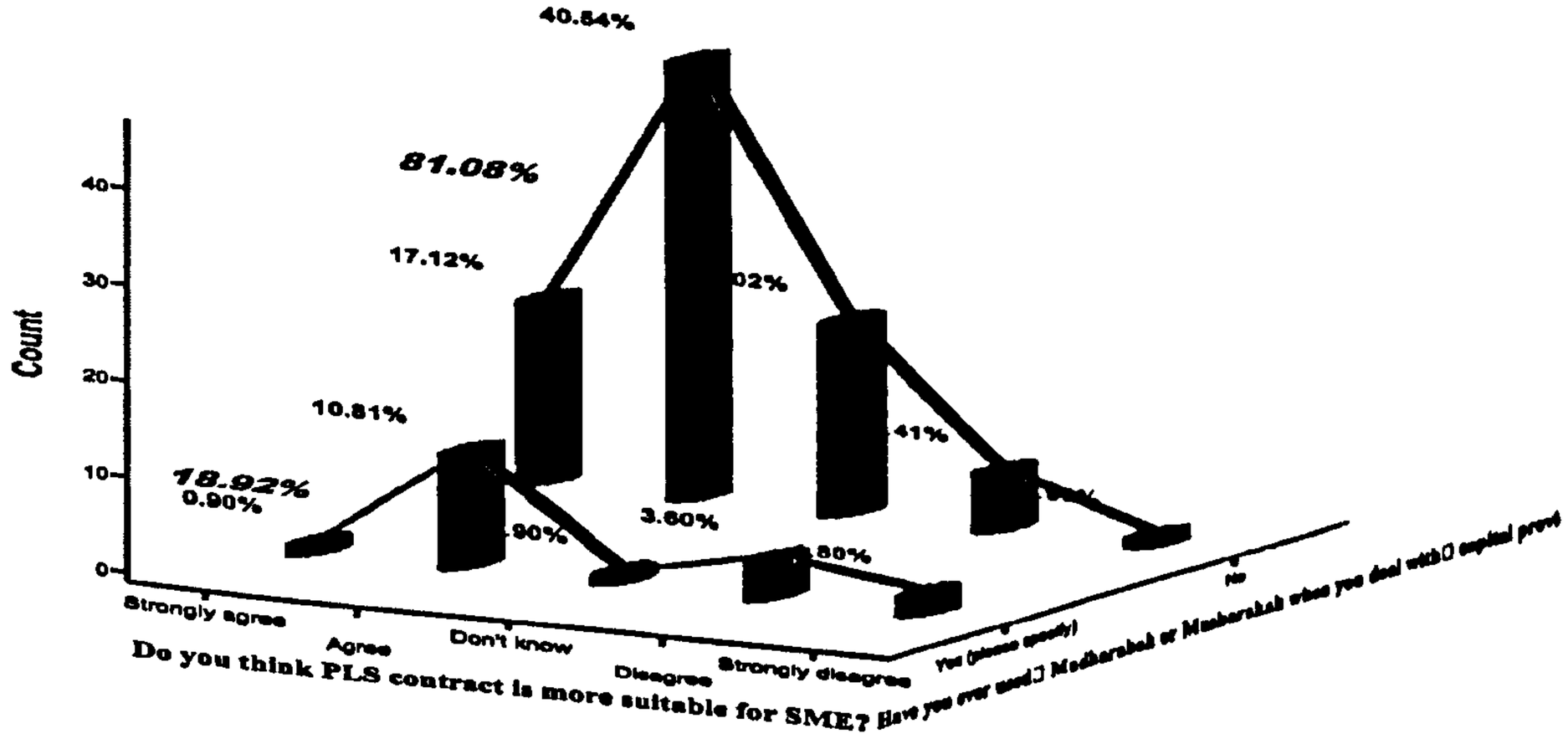
The result of Binomial test in Table 8.27 in Chapter 8 (PLS is more suitable for SME for all entrepreneurs) reveals a highly significant result indicating that the majority of Saudi entrepreneurs believe that profit and loss-sharing contract (PLS) is more suitable for SMEs. 81.08% of entrepreneurs in the sample never used PLS mode of finance with a capital provider, but believe that it is the more suitable type of finance for SMEs. This could also be explained by their high religiosity, as explained in an earlier chapter. Also, the capital provider under this type of finance will share reliability with entrepreneurs based on pre-agreed portion. For instance, in a *mudharabah* contract, in the case of loss, the entrepreneur will sacrifice his reputation only if the capital provider can prove that the loss was caused by negligence of entrepreneurs. As a result entrepreneurs would feel more secure under the PLS agreement than in other mode of finance.

Demand for Islamic banking or Islamic financial institutions in Saudi Arabia cannot be overlooked, as the results of the survey prove. As the results show, 91.2% of entrepreneurs with no experience, 84.4% of entrepreneurs with a working experience from 1 to 5 years, 90.9% of entrepreneurs with a working experience from 6 to 10 years, 100% of entrepreneurs with a working experience from 11 to 15 years and 85.7% of entrepreneurs with more than 15 years working experience all overwhelmingly chose religion as the main reason for selecting Islamic financial institutions, (Chapter 7 Table 7.18 Experience * P2Q9 Attraction dealing with IF Cross tabulation).

Entrepreneurs' expectations of the compatibility of financial institutions in terms of using PLS as a mode of financing SMEs were high. The results show that 75.7% of entrepreneurs planning to start a new business venture indicated that Islamic banks and financial institutions are more compatible in terms of using PLS to finance SMEs. 57.1% of entrepreneurs with an operating business classify Islamic banks and Islamic financial institutions as the more compatible capital providers. 57.2% of entrepreneurs with an operating business and a full-time government job view Islamic

banks and Islamic financial institutions as more compatible, while 35.7% believe a venture capital company is more compatible in terms of using PLS as a mode of financing SME. 71.4% of entrepreneurs with an operating business and a full-time private sector job believe that Islamic banks are a more compatible mode of finance for SME through PLS. As entrepreneurs in all categories above showed their interest in the financing method and they believe in PLS as a mode of financing SMEs, this also indicates a sense of religious attitude. Such enthusiasm for the PLS mode of financing can also be explained by their frustration with the prevailing modes of funding provided by the financial institutions in the Kingdom and the criteria that capital providers used when considering whether to finance SMEs.

Figure 9.3 Islamic Finance and Religiosity



As figure 9.3 depicts, 81.08% of entrepreneurs have not practised PLS with a capital provider; this emphasises the need for more PLS and Islamic financial engineering and less involvement in mark-up contracts. Saudi entrepreneurs show their dislike by means of the contradiction in their answers, where they desire to become involved in PLS and do not want to have partner. Hence they feel that the current situation of SMEs is not sufficiently good, but could not pinpoint the source of difficulty. According to Rosly and Abu Baker (2003), *murabahah* and *ijara* were involved in more than 90% of the Islamic banking activities in Malaysia, while 93% of Islamic bank activities in Bahrain and 88% in Dubai currently involve *murabahah* (Iqbal and

Molyneux 2005). Mark-up contracts form a high percentage of the Islamic banking activities which would be called as they turned to the method of finance instead of investment, hence financing contracts with a fixed repayment are less risky than investment transactions. Although a high percentage of SME operators have not practised PLS, there was some scepticism when respondents agreed that PLS is more suitable for SME. In other words, it is possible that they would like access to funds other than those that banks normally provide. Also, they prefer not to condemn PLS as they have never used it, which is a response attributable to their Islamic beliefs. The participants might have thought that their rejection of PLS as a mode of financing, SMEs would be counted as a rejection of the principle. Furthermore, 51.4% answered 'agree', 18% chose 'strongly agree' and the mean-value of 3.72 goes to the agreeing criteria. Such positive results show that Islamic financial institutions can use the advantages of Islam to market their Islamic products as banks have understood the significance of Islam among Saudi entrepreneurs, despite the efficiency and accuracy of their knowledge on the funding products.

The lack of a proper banking and financial market for Islamic financial activates in the Kingdom of Saudi Arabia leads them to rely heavily on financing products instead of an investment (Al-Hamazani, 2007). The domination of Islamic financing transactions most notably *murabahah* and *ijara* in specific markets is due to easy sharing and control of the settlement process. According to Isad (2007), a member of the Saudi Economic Association, the excess use of *murabahah* would be justified by deficiency in the Saudi market in terms of uniting the *fatwa* with regard to each Islamic contract. Shakh Saad Al-Khethlan when interviewed by Al-Rasalh Broadcasting confirmed that Islamic banking misleads its clients by window-dressing the contracts approved by *Shariah* in order to integrate *riba*.

There are certain reasons justifying the limited usage of PLS contracts. These are as follows: (1) the necessity of keeping and revealing detailed records; (2) the entrepreneur cannot become the sole owner of the project except through diminishing *musharakah*, which may take a long time. As revealed earlier, the majority of Saudi entrepreneurs prefer to have sole ownership. Similarly, there are some practical reasons for banks to prefer fixed-return methods of finance, such as a need for closer monitoring of the project. This requires project monitoring staff and mechanisms,

which adds costs to the contracts. With regard to liabilities, the structure of deposits of Islamic banks is not sufficiently long term, and therefore they do not want to get involved in long-term projects. (3) PLS contracts require a lot of information about the entrepreneurial abilities of the customer and such information is not easily acquired. (Farooq 2006)

Regarding statistical analysis, there is a significant mean difference between Saudi entrepreneurs who plan to start a business and those who are operating a business in terms of their perception that PLS is more suitable for SMEs. Thus, at a 95% confidence level the majority of Saudi entrepreneurs planning to start a business do not perceive it as being more suitable for SMEs whereas the majority of Saudi operating entrepreneurs perceive PLS to be more suitable. Also, at a 95% confidence level there is no significant mean difference between small and medium enterprises in their perception that PLS is more suitable for SME. Small and medium enterprises appear to always have similarities in their view. Entrepreneurs planning to start their businesses are representing the new trend of the Saudi entrepreneurs in that they express their views freely. Such views are, presumably, incomplete/unverified until they enter practise as they have never been involved in PLS contracts.

After identifying the perception of the participant entrepreneurs of the PLS mode of financing, this study also intended to test the perceptions of the participants on the process of credit applications, which is the subject of hypothesis 8, as discussed in the following section.

Hypothesis 8

- ***Ho: The majority of Saudi entrepreneurs do not believe that credit application conditions set by Saudi banks (Islamic and conventional banks) are very complicated.***

The inferential test in Table 8.32 in Chapter 8 (Difficulty of Conditions set by Islamic banks), for all entrepreneurs shows a significant result that Saudi entrepreneurs believe that credit application conditions set by Islamic Banks are very challenging, hence that would be caused by less competitive market of the Islamic financial products. For the case of conventional banks, the test in table 8.33 in Chapter 8 (Difficulty of conditions set by conventional banks), for all entrepreneurs, shows a

significant result, that credit application conditions set by conventional banks are very challenging.

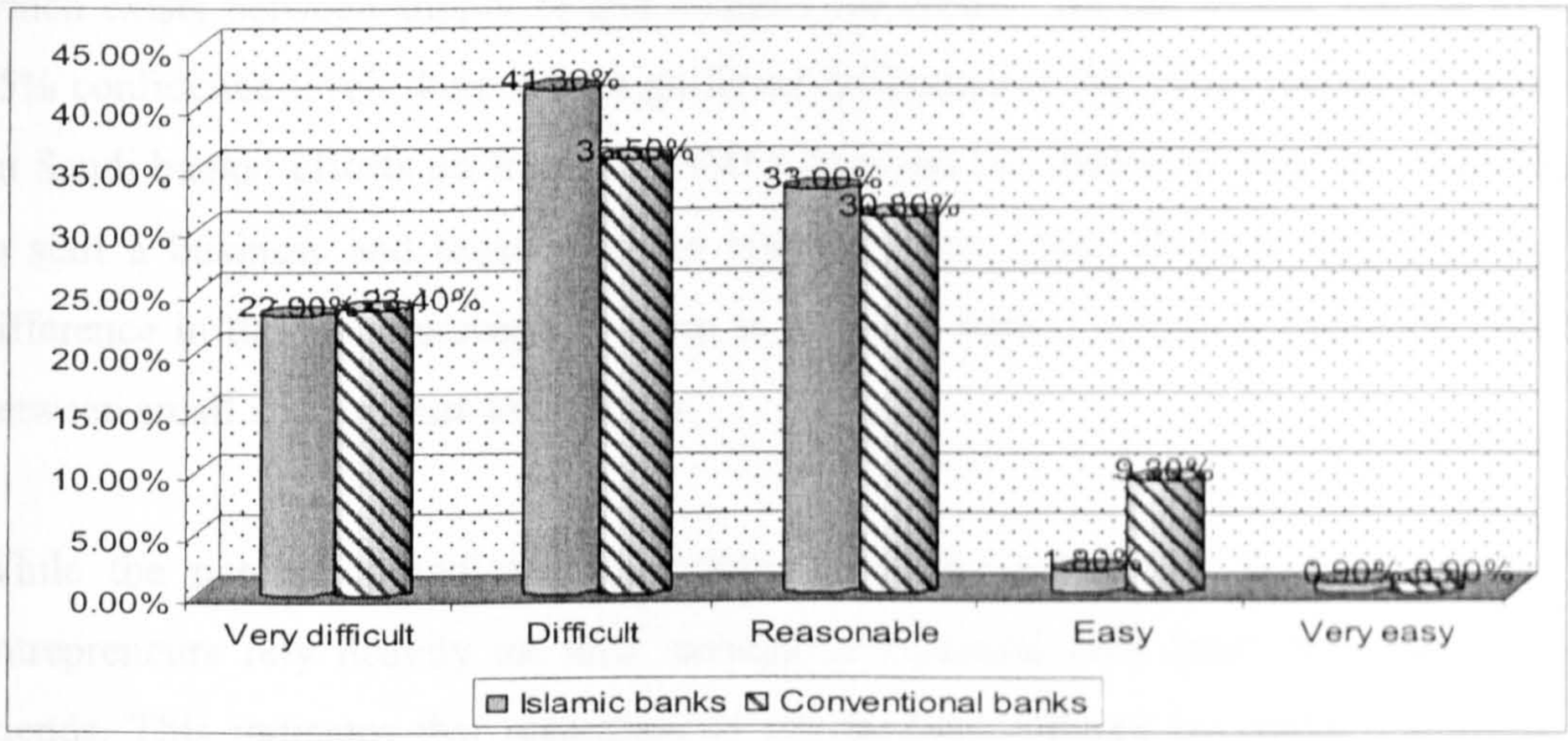
Financial conditions set by Islamic banks and Islamic windows and conventional banks are the main concern for entrepreneurs when they apply for funds. The results show that 22.9% of the sample thought the financial conditions set by Islamic banks or Islamic windows were very challenging, 41.3% thought they were challenging and 33.0% thought they were reasonable. Furthermore, the results for conventional banks are quite similar: 23.4% of the sample thought they were very challenging, 35.5% thought they were challenging and 30.8% thought they were reasonable. Only 9.3% of the sample thought the financial conditions set by conventional banks were easy and 0.9% thought they were very easy. Hence, Saudi entrepreneurs think Islamic banks and Islamic widows are even more challenging in terms of their conditions than conventional banks when it comes to credit application, as 63.03% for Islamic banking chose challenging and very challenging at 58.09%, but conventional banks conditions were found to be between difficult and very difficult. In the area of difficulty, 41.30% of entrepreneurs think Islamic banks' terms are difficult, while 35.50% think conventional banks' are challenging. Thus, entrepreneurs believe that dealing with conventional banks is much easier than with Islamic banks. Islamic banking products are still novel compared to conventional banking products; therefore the cost of the former is still high. On the other hand, the providers of Islamic financial products use the advantage of marketing these products as Islamic to get ahead.

A survey conducted in November 2006 by Forfás[8] shows that nearly 70% of companies included in the survey with less than ten employees found it difficult to raise finance/equity at the time (SME finance equity survey). Most SMEs in Saudi Arabia are not satisfied with the existing banks and financial institutions. Entrepreneurs find bank procedures very complicated and it is difficult to obtain loans. The majority of Saudi entrepreneurs are unable to meet the demands for a personal guarantee and securities required by the banks. Moreover, the majority of

[8] Enterprise Ireland Jointly with the Department of Enterprise, Trade and Employment

SMEs also contend that banks are generally too restrictive with their existing terms and loan procedures (Looney 2004).

Figure 9.4 Financial Conditions Set by Islamic Banks, Islamic Windows and Conventional Banks



Entrepreneurs who are planning to start a business and those who are operating a business reached the same conclusion with regard to credit application conditions for both Islamic and conventional banks in Saudi Arabia. There is no significant difference in the mean level of difficulty perceived by the entrepreneurs in this respect. In addition, there is no significant difference in the mean level of difficulty perceived by small and medium enterprises in terms of the credit application conditions set by Islamic and conventional banks.

The lack of funding available or obstacles faced by entrepreneurs in obtaining funds from the financial sector for their SME projects is known as the "financing gap" in the literature. Potential creditors or investors find it difficult to distinguish the financial situation of the company from that of its owners. The entrepreneurs may have re-mortgaged their assets such as houses to acquire the start-up funds for the company. All these difficulties indicate the financial gap's presence, which is the subject matter of hypothesis 9 aimed at ascertaining the presence or absence of financing gap in the case of Saudi SMEs.

Hypothesis 9

- ***Ho: The majority of Saudi Arabian banks are not bridging the gap between supply and demand for credit.***

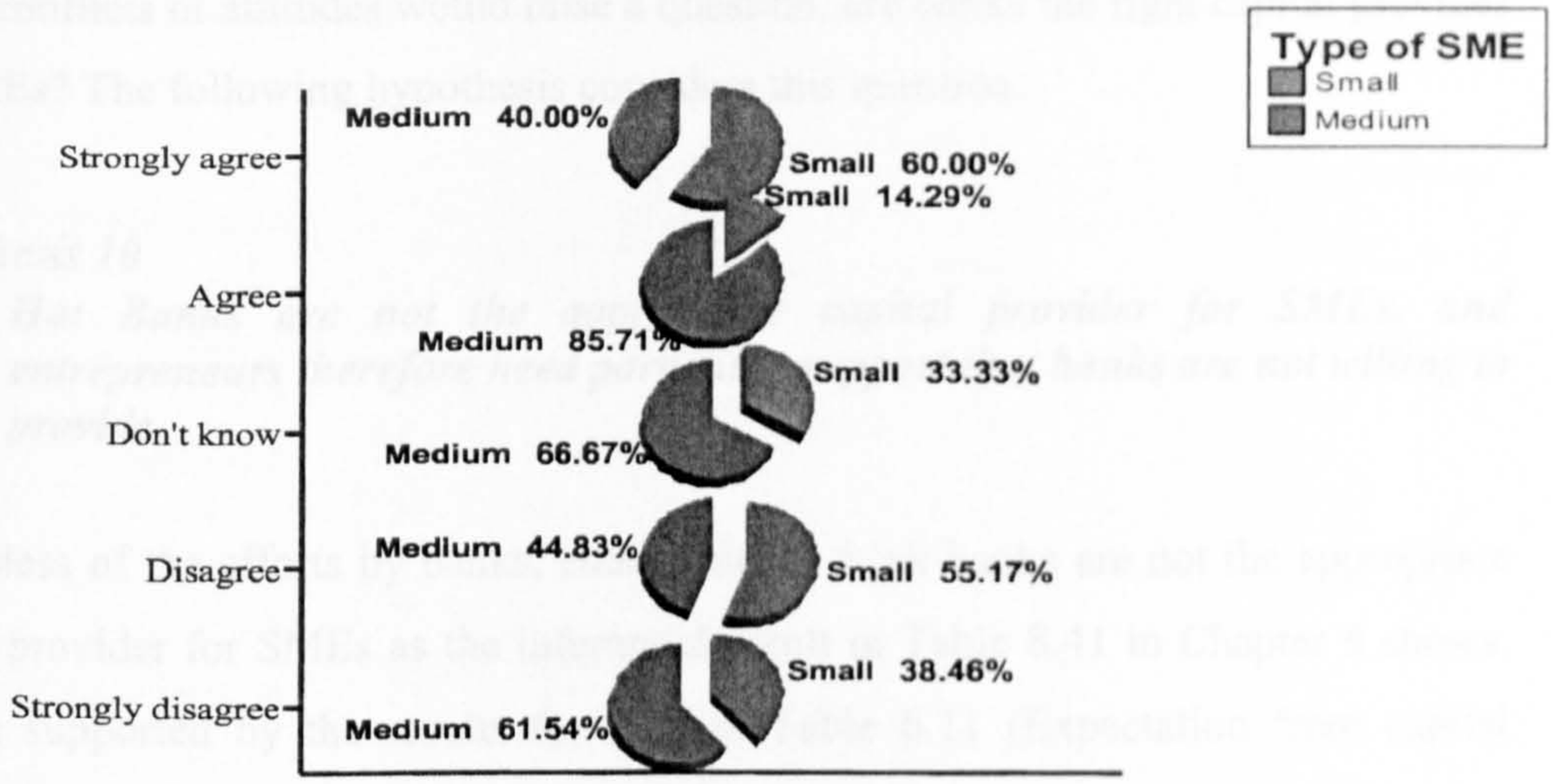
The results in Table 8.38 (in Chapter 8) indicate that Saudi Arabian banks are reaching out to the business community in an attempt to overcome the finance gap which exists between supply of and demand for credit. As the results indicate at a 95% confidence level, there is no significant difference in the mean perception score on Saudi banks' efforts on financing SMEs between entrepreneurs who are planning to start a business and those who are operating one. Also, there is no significant difference in the mean perception score as to Saudi banks' efforts at financing SME between small and medium enterprises.

While the perception indicates that there is no financing gap, as noted earlier, entrepreneurs rely heavily on their savings or financial help from their family or friends. This indicates that regardless of the facilities offered by banks, traditional business mentality still prevails among the entrepreneurs, which, as a tradition, excludes financial borrowing. Most of the entrepreneurs only have a current account. It should, therefore, be noted that banks in the Kingdom face less competition in the Saudi financial market compared to other countries as there is no real motivation for banks to diversify products. SAMA insists on using the conservative policy of "better safe than sorry". Entrepreneurs on the other hand do not know what they should have and what they deserve to receive in terms of support. The consequence of these contradictions is the absence of financial deepening in the Saudi market.

As banks are working towards developing strategies to overcome the gap between supply of and demand for credit, the question here asks what entrepreneurs in the survey sample think of banks as capital providers for SMEs. The chart below considers this question:

Figure 9.5 Saudi Banks Financing SMEs

Do you think Saudi banks in terms of financing SME are doing their best for their customers?



Broadly, Saudi banks have been criticised by their clients in terms of services and financial facilities, which are seen as not rising to expectations. Therefore, entrepreneurs were asked to share their views about Saudi banks in terms of financing SMEs: are Saudi banks doing their best for their SMEs customers? As the results show, 46.8% of the sample disagreed with the performance of Saudi banks toward SMEs, 20.7% strongly disagreed, 15.3% did not know, 12.6% agreed with the performance of Saudi banks and 4.5% strongly agreed. Medium-sized entrepreneurs encompass 61.54% of the strongly disagreeing respondents and 44.83% of the agreeing ones.

The population sample believed in the efforts by Saudi banks to overcome the gap which exists between supplies of funds represented by banks and demand for credit represented by entrepreneurs, In the survey sample, the majority do not think that Saudi banks are doing their best for their SME clients. The conflict here would prove the existence of the financial gap primarily as the Saudi banks believe their efforts are sufficient, but this not necessarily reflected by the perceptions of Saudi entrepreneurs. Hence, Saudi banks could not reach the SMEs with proper financing instruments, and

therefore the financial gap remains. One of the main reasons for this could be miscommunication and an absence of an integrated strategy between financial institutions and the users of funds.

These conflicts of attitudes would raise a question, are banks the right capital provides for SMEs? The following hypothesis considers this question.

Hypothesis 10

- ***Ho: Banks are not the appropriate capital provider for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide.***

Regardless of the efforts by banks, entrepreneurs think banks are not the appropriate capital provider for SMEs as the inferential result in Table 8.41 in Chapter 8 shows. This is supported by the results for Q29 in Table 6.11 (Expectation from capital providers), which shows that 56.4% of the respondents expected partial financial support, 34.5% full financial support, 3.6% technical support, while managerial support, expertise and skills were expected by 1.8% in each category, and 0.9% answered 'other'; 0.9% wished to have all available support.

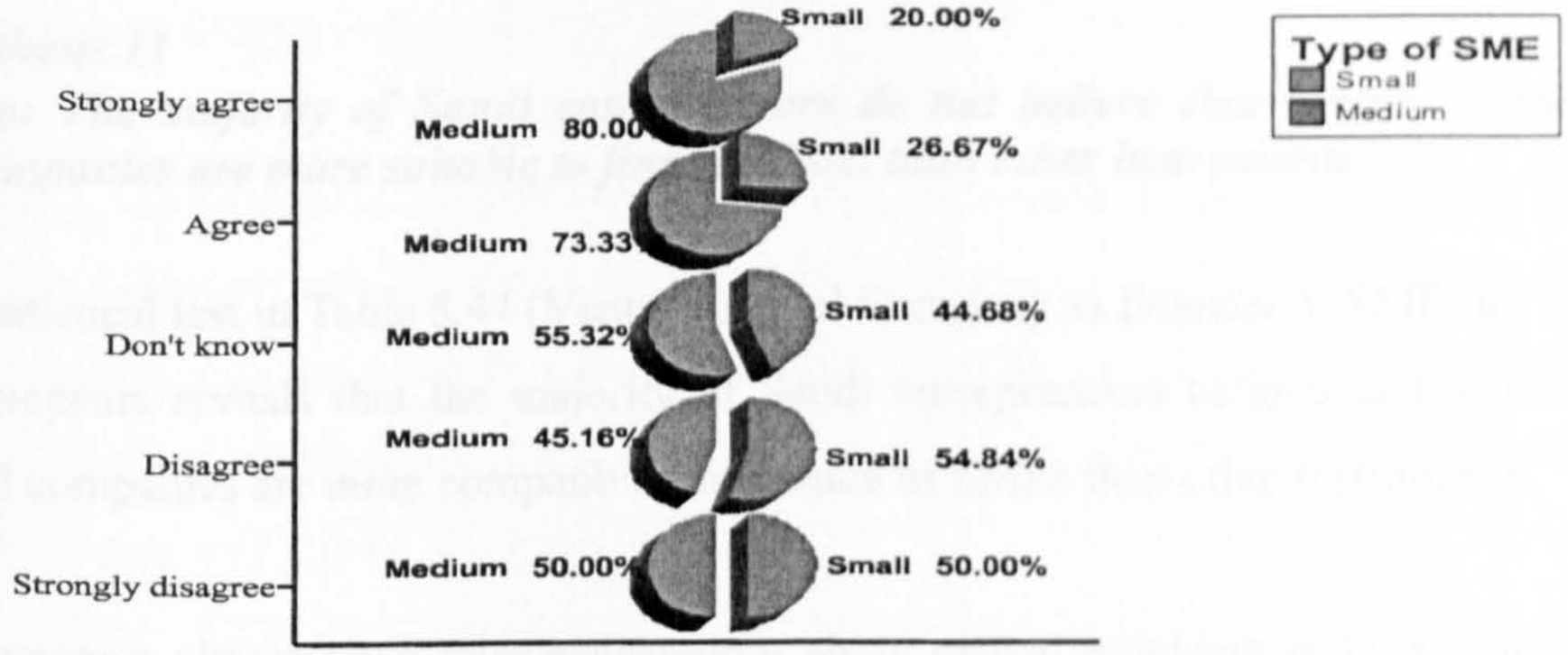
It is true that SME financing requires integrated financial services, which should be able to provide variety of support and funds requested by entrepreneurs. This could be costly to Saudi commercial banks as they are not specialised in financing SMEs. Entrepreneurs therefore need particular support that Saudi commercial banks are not willing to provide. As entrepreneurs think that banks are not the appropriate capital providers, they should have alternative capital providers for their financial needs.

The study attempted to find out whether banks are the correct source of financing for SME and what the appropriate product is. The study asked entrepreneurs about appropriation of financing SMEs through PLS by banks. The study showed 30.91% of the sample did not know, 25.5% agreed that a bank is the appropriate source of financing SME through PLS, 25.5% also disagreed with it, 12.7% strongly disagreed and 5.5% strongly agreed. Thus, it is overwhelmingly clear that banks are not the appropriate institutions to provide PLS financing to SMEs. It should also be mentioned that medium business operators have opposite views, as 80% strongly

agree and 73.33% agree that banks are the appropriate financial institutions for PLS financing. The results are depicted in figure 9.6.

Figure 9.6 Financing SMEs Through PLS

Banks as the appropriate financial institution to finance SMEs through PLS



The results also show that there is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those operating a business as it pertains to the statement that banks are not the correct capital providers for SMEs, and entrepreneurs therefore need particular support that banks do not provide. Also there is no significant difference in the mean perception score between entrepreneurs who have small or medium enterprises regarding the same statement. It can therefore be concluded that banks are not considered by the participants as the right financial institution to provide financing for SMEs.

Since banks are not perceived to be the appropriate financial institutions, an attempt was made to see whether venture capital as an alternative mode of financing could be acceptable to the participants. As mentioned in the literature chapter, venture capital is a form of risk capital where the capital is invested in a project and there is a substantial element of risk relating to the future uncertainties. Venture capital is invested as long-term shares (equity) rather than a loan and the investor requires a higher rate of return as compensation for the high risk involved. Venture capitalists prefer to invest in entrepreneurial businesses and this does not necessarily mean small

or new businesses only. If an entrepreneur is looking to start-up, expand a business in which he/she works, venture capital could help do this. Obtaining venture capital is substantially different from raising debt or a loan from capital providers. Therefore, this study also attempted to reveal the perceptions of the participants regarding venture capital, which is explored by the following hypothesis:

Hypothesis 11

- ***Ho: The majority of Saudi entrepreneurs do not believe that venture capital companies are more suitable to finance SME than other instruments.***

The statistical test in Table 8.44 (Venture capital Company as financer of SME) for all entrepreneurs reveals that the majority of Saudi entrepreneurs believe that venture capital companies are more compatible for finance of SMEs than other instruments.

Entrepreneurs always have prior expectations about capital providers and the form of financial return, thus the study covered these issues in questions 29 and 30, respectively (Table 6.11 Expectation from capital providers). Entrepreneurs' expectations about a capital provider were that 56.4% expected partial financial support, 34.5% full financial support, 3.6% technical support, while managerial support, expertise and skills were expected by 1.8% in each category, and 0.9% answered 'Other'; 0.9% wished to have all available support.

Statistical analysis shows that there is no significant difference in the mean perception score between entrepreneurs who are planning to start a business and those who are operating a business, that venture capital companies are more compatible with the finance of SMEs than other instruments. Also, there is no significant difference in the mean perception score between entrepreneurs who have small or medium enterprises in that venture capital companies are more compatible with SMEs than other instruments. The type of entrepreneurs and type of businesses agreed about the compatibilities of venture capital as a mode of financing SMEs as that would take the discussion to a point where entrepreneurs do not want to be left alone with the project. Debt type of financing is no longer preferable and Saudi entrepreneurs either would like to have a silent partner or a partner with less than 50% of shares, as showed early in this chapter. Presumably, they desire to have *mudharabah* contract where they can

operate within the permissibility of *Shariah* contract on one hand and having full control of leading the projects with sharing liabilities with the partner in other hand.

9.6 FUTURE OF PLS AS A MODE OF FINANCING FOR SMEs

It is worth mentioning that in the last part of this chapter, respondents in the sample showed a high level of negativity by recording the highest percentage of "no comment". Entrepreneurs shared their views regarding the performance of PLS for those who have experienced PLS in terms of financing. The findings show that 49.5% of those who practised PLS are happy with it, while 50.5% were not contented with it. Venture capital companies, therefore, might be the desired replacement for other financial institutions in terms of financing SMEs in the Kingdom of Saudi Arabia. Table 9.4 shows respondents' views regarding venture capital companies, where 32.7% of the sample agreed on the compatibility of venture capital in financing SMEs, 31.8% did not know, 24.5% disagreed, 6.4% strongly agreed and 4.5% strongly disagreed. Entrepreneurs believe that venture capital firms are more specialised in terms of financing SMEs, hence venture capital can offer more than just financing. As mentioned in the previous section, entrepreneurs are looking for special portfolios to finance their project, which are *Shari'ah* compliant and give entrepreneurs enough freedom to manage the project with sharing reliabilities. Accordingly Islamic venture capital finance might be the combination that entrepreneurs wish to have for their project.

Table 9.4 PLS Experience

P7Q58-Do you think venture capital companies are more compatible to finance SME than other financial institutions?		Percent	Mean-value	Std. Deviation
Valid	Strongly disagree	4.5	3.1182	1.00212
	Disagree	24.5		
	Don't know	31.8		
	Agree	32.7		
	Strongly agree	6.4		

As an opportunity to provide loan-applicants a chance to state their requirements, in the belief that entrepreneurs are best placed to do so, table 9.5 depicts the results regarding the expectations of the entrepreneurs from prospectors of PLS in terms of financing SMEs. It is clearly evident that entrepreneurs are looking for an investment

to be integrated with the capacity to provide integrated support or partial support in the form of financial support, managerial support, technical support and other kinds of support. Respondents mentioned that all types of support must be *Shariah* compliant, so the researcher classified this as Islamic venture capital; 21.6% of the sample indicated Islamic venture capital, 0.9% had recommended government support and 3.6% wanted a reduction of conditions set by the capital provider, but 73.9% had no comment. Thus, this provides additional evidence that Saudi entrepreneurs by keeping their Islamic spirit, would like to have more than funding support for their projects. This is a combination of support not available in traditional banking. Such an integrated and comprehensive service and financing offerings can only be provided by Islamic venture capital.

Table 9.5 Expectation from Prospectors of PLS

P7Q59- What would you expect from prospectors of PLS in term of financing SME?		Percent	Mean-value	Std. Deviation
Valid	Islamic Venture Capital	21.6	3.30	1.240
	Government Support	.9		
	Reduce conditions set by the capital providers	3.6		
	No contribution	73.9		

Entrepreneurs sought to clarify the abilities of prospectors of PLS in terms of providing appropriate methods to finance SME. The results in table 9.6 showed that 77.5% of the sample had no comment, 12.6% had recommended Islamic venture capital as they believed that PLS prospectors would provide it, 6.3% of the sample was concerned about giving full weight to the feasibility study, and four equal percentages of 0.9% mentioned SME incubation, government support, reduced conditions set by the capital providers and non-profitable support. Still, the second highest percentage of the sample is Islamic venture capital. The results indicate that the entrepreneurs need support. However, it seems that they cannot precisely pinpoint the type and source of support.

Respondents expressed their suggestions as to how SMEs could be provided better services and financing under Islamic law. These suggestions are grouped under the most important points from the respondent's point of view. Thus, 1.8% of the respondents suggested innovation and encouragement of support, 5.4% Islamic venture capital, 2.7% government support, 0.9% definition and 89.2% had no

comment (Table 6.29 Sharing Opinion). SMEs in the Kingdom need infrastructure as the sector seems to have little organisation. Entrepreneurs, as the study shows, wish access to very basic services that should be provided. High percentage of the sample has no comment because they do not know where to claim funding from. So, there is much to do for the benefit of SMEs, in order to escalate it to international standards.

Table 9.6 Expectation from Prospectors of PLS

How can prospectors of PLS provide an appropriate method to finance SME?		Percent	Mean-value	Std. Deviation
Valid	Giving full concentration to the feasibility study	6.3	5.90	2.128
	Islamic venture capital	12.6		
	SME incubation	.9		
	Government Support	.9		
	Reduce conditions set by the capital providers	.9		
	Non-profitable support	.9		
	No contribution	77.5		

The last part of this section is about the compatibility of financial institutions in terms of using PLS as a mode of financing SMEs. The results in "Table 7.24 entrepreneurial categories P6Q56 Financing SME through PLS Cross tabulation" show that 75.7% of entrepreneurs planning to start a new business place Islamic banks and Islamic financial institutions as being more compatible in terms of using PLS to finance SME. 57.1% of entrepreneurs with an operating business classify Islamic banks and Islamic financial institutions as more compatible capital providers. 57.2% of entrepreneurs with an operating business and a full-time government job rank Islamic banks and Islamic financial institutions as more compatible, while 35.7% believe a venture capital company is more compatible in terms of using PLS as a mode of financing SME. 71.4% of entrepreneurs with an operating business and a full-time private sector job believe that Islamic banks are a more compatible mode of finance SMEs through PLS.

The criticisms and claims mentioned previously are caused by diverse reasons, most of them by the absence of specialised and independent SME professional bodies. Entrepreneurs would not mind having a partner, but granting him less than 50% of share to keep control over the project. Venture capital firms are not the best way of funding SMEs according to Saudi entrepreneurs' point of view. So there is a call for such a portfolio that would be specialised in supporting SMEs not only financially but also by giving technical support, managerial support and other kinds of support. This

portfolio should include services offered by governmental authorities and support as this portfolio would involve some unprofitable services such as training programmes for entrepreneurs. The portfolio could be a combination of one third governmental support and two thirds private sector supports. The management would come from the private sector while the supervision would come from the government.

According to the survey sample and inferential population result (Table 7.24, Entrepreneurial Categories * P6Q56 Financing SME through PLS Cross tabulation) entrepreneurs desire to have diverse support--mainly full or partial financial support, hence funds are the life-blood of SMEs. Although entrepreneurs are in favour of Islamic banks or Islamic financial institutions, they believe that banks are not the correct capital providers. Entrepreneurs are keen to keep their Islamic finance literature and desire to be funded through funds compatible with *Shari'ah* law and not those provided by banks. Therefore, entrepreneurs thought they will be better off if served by Islamic venture capital institutions as these institutions would be paying attention to finance the potential SME business only. They would allow those businesses that would start small or medium and would be satisfied to remain in the same size. As a consequence, entrepreneurs are looking for financial institutions that would be specialised in and understand the needs and advantages of SMEs.

9.7 CONCLUSION

In brief, government intervention to encourage the awareness of the importance of SMEs is preferable and entrepreneurs rely on the capability of the Saudi financial sector to absorb more SMEs and guide them towards a profitable, prolonged existence. As mentioned earlier, the market suffers from a limitation of financial depth in the Kingdom and therefore the majority of Saudi entrepreneurs perceive the government as the major constraint on business in developing financial systems in Saudi Arabia. Entrepreneurs support the intervention of the government only in terms of encouraging the SMEs' awareness.

Although a high percentage of Saudi entrepreneurs have not practiced PLS with a capital provider, they believed that Islamic banks were the appropriate financial

institution to finance SMEs through the PLS mode of finance. Hence the majority of Saudi entrepreneurs who are the sole proprietors perceive PLS contracts as being more suitable for SMEs, whereas the majority of Saudi entrepreneurs planning to start a business do not perceive PLS as being more suitable for SME.

As the majority of Saudi entrepreneurs believe that credit application conditions set by Islamic and conventional banks are very challenging, they also think that banks are not the appropriate capital providers. Thus, entrepreneurs would prefer to be funded by other financial institutions than being funded by banks. They are looking for portfolio investments to be integrated with the capacity to provide integrated support or partial support, such as financial, administrative or assistance in the feasibility study, hence this could be done through the idea of Islamic venture capital.

In an attempt to render the results in a more systematic manner, the following table 9.7 attempts to bring the results of all the hypotheses' testing together:

Table 9.7 Summary of the Findings

No	Hypothesis	Decision
1	Ho: Majority of Saudi entrepreneurs do not have a fair level of knowledge of Islamic banking products.	Accept H1:
2	Ho: The majority of Saudi entrepreneurs do not think that the environment of the Saudi financial sector is capable of absorbing more SME and guiding them towards a prolonged profitable existence.	Accept H1:
3	Ho: The majority of Saudi entrepreneurs do not perceive the government as the major constraint on business in developing financial systems in Saudi Arabia.	Accept H1:
4	Ho: The majority of Saudi entrepreneurs do not have partnerships.	Accept Ho:
5	Ho: The acceptable percentages of ownership of a prospective partner and expected work to be handled by partner are independent of each other.	Accept Ho:
6	Ho: The majority of Saudi entrepreneurs do not know the appropriate financing for their business.	Accept Ho:
7	Ho: The majority of Saudi entrepreneurs do not perceive that profit and loss-sharing contracts (PLS) to be more suitable for SME.	Accept H1:
8	Ho: The majority of Saudi entrepreneurs do not believe that credit application conditions set by Saudi banks (Islamic and conventional banks) are very complicated.	Accept H1:
9	Ho: The majority of Saudi Arabian banks are not bridging the gap between supply and demand for credit.	Accept H1:
10	Ho: Banks are not the appropriate capital provider for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide.	Accept Ho:
11	Ho: The majority of Saudi entrepreneurs do not believe that venture capital companies are more suitable to finance SME than other instruments.	Accept H1:

As can be seen in table 9.7, in the case of 11 hypotheses, 7 alternative hypotheses were accepted leading to positive results; while null-hypothesis were accepted for the remaining 4 hypotheses with negative implications.

CHAPTER TEN
CONCLUSION

10.1 INTRODUCTION

This study endeavored to evaluate the feasibility of financing small and medium businesses through the PLS technique within Islamic finance offerings, bringing PLS and SME under investigation results in a range of findings. Below, the researcher illustrates some features from the related literature and empirical findings. Moreover, this study provides policy recommendations for the development of the SMEs in terms of financing as the main concern for entrepreneurs, followed by recommendations for future research.

10.2 REFLECTING ON FINANCING AND SME FINANCING IN SAUDI ARABIA

As was mentioned earlier, the lack of PLS practice in the financial market invites researchers' curiosity and raises several inquiries, and hence leads to an urgent need for more research and innovation in the Islamic financial field, especially in investment methods such as PLS. The existing share of PLS in investment financing in the market is not sufficient, and from the point of view of Islamic banks the feasibility of using it is very low for two reasons: asymmetric information and adverse selection; as mentioned previously in this study, these constitute an important barrier in the expansions of PLS. However, the lack of PLS offerings in Islamic banking and finance worldwide cannot be entirely justified in these terms, as PLS is the main principle which fully represents the spirit of the Islamic banking system and therefore should be a central component of Islamic banking, as is demonstrated in the theoretical literature on Islamic finance. Despite such importance, the percentage of PLS usage is very low compared to make-up transactions. This is because the Islamic banks focus on financing methods instead of investment strategy, which encourages

the use of mark-up-type Islamic financing, involving low risks. The dependence of the Islamic financial industry on the mark-up method is led by the consideration of capital instead the distribution of resources, which should be their main concern.

Mark-up contracts have witnessed significant developments as offered by Islamic and conventional bankers. There should be an emphasis on the fact that the practice of mark-ups, mainly *murabahah* financing, should be restricted to cases where *mudharabah* and *musharakah* type of PLS methods are of no use to maximise effectiveness of financing. PLS would be best used by separate financial companies and supervised directly by the central bank or by regulatory financial institutions authorised by the central banks. The central banks should value these financial companies and approve their performance by listing them and making them accessible to the public. There should be a comprehensive government strategy and support to encourage banks to become more involved in PLS activities.

Financing remains an important issue for Saudi Arabia, despite the fact that it is an oil rich country. The country remains a developing economy facing the huge challenge of job creation and economic development. Therefore, SMEs and their financing are crucial for establishing a robust economy. Consequently, the Saudi economy has been going through reforms with economic diversification, Saudization, expanding investments for job creation and financial development.

These changes and the growth of the Saudi economy are not defined only in terms of the increase in financial activity and institutions, but also in the development of new techniques, and the diversification of financial instruments, as shown by the Sixth and Seventh Development Plans. The developments that merit remark when considering Saudi Arabia's financial development are Islamic banking and Islamic modes of finance. Since the establishment of Al-Bilad Bank on 4th November 2004 there have been no restrictions regarding the establishment of Islamic banks. Soon after its establishment, the government, through SAMA, allowed the bank to float on the stock market. Thus, SAMA did not treat it in the same way as a conventional bank by waiting for the three year probation period of successful performance and profitability, because Al-Bilad Bank was an asset backed banking activity. Nevertheless this does not justify the fact that SAMA has created no regulations or

supervisory mechanisms specifically for Islamic banks or Islamic financial instruments. However, the financial instruments used by SAMA in terms of regulation are entirely conventional.

The Saudi government paid attention to the importance of SMEs as a main source for economic development in terms of job creation, developing new products and services, technological innovation, and most importantly, encouraging entrepreneurial culture. Government banks and Saudi commercial banks are participating in a government initiation by achieving one of the government targets, that is, the establishment of a programme to overcome the gap between commercial banks and the financing needs of SMEs and minimising credit risks applicable to SMEs. As mentioned earlier in this study, this new programme will guarantee 75% of the loans given to the SMEs in exchange for collaterals including mortgage on the fixed assets of the enterprise in favour of the lending institution.

Despite such novel financing policies, the existing obstacles facing the development of SMEs in the Kingdom would take several years to overcome. The structural imbalances afflicting the work of many SMEs and the absence of an independent institutional framework for the beneficiary of the interests of these businesses resulted in the absence of many of the main pillars needed to support SMEs. It is important to note that entrepreneurs are looking for support and are ready to collaborate with the government in order to develop the SMEs sector.

10.3 REFLECTING ON THE EMPIRICAL FINDINGS

As the study showed, the majority of the respondents in the sample fall into the small business category, whose knowledge in financial matters were not found to be strong and therefore it is advisable that entrepreneurs should develop their financial knowledge in related business areas.

Although a high percentage of entrepreneurs in the sample had not practised PLS with capital providers, they believed in the efficiency of PLS as a more suitable financial method for SME. In addition, the respondents placed the role of religion foremost in

their selection of financing modes, even if Islamic financial products would add cost to the transaction or make the deal more costly to implement. Banks and other financial institutions in the Kingdom, who provide Islamic products, become conscious of the moral value attached to Islamic finance for their customers and give competition less care. Entrepreneurs, as the results have shown, are looking for portfolio investment to be integrated with the capacity to provide integrated support or partial support, such as financial administrative or assistance in the feasibility study. This could be done through venture capital companies that specialise in financing SME projects. But there were also calls for guarantees and the provision of feasibility studies at a reasonable cost. Therefore, special investment portfolios may not be the only objective in achieving the highest profit as it needs to be taken into account that a product carries with it investment profit and social benefits.

The study showed limited usages of PLS, and demonstrates that PLS is not being delivered in an appropriate way to all entrepreneurs within different categories. The majority of entrepreneurs in the sample have never experienced PLS with capital providers, whereas they have high expectations of PLS as a mode of financing SMEs. The results also show that the majority of entrepreneurs in all categories in this sample i.e. entrepreneurs planning to start or operating, and small and medium business, knew the kind of financing that suits their business.

The study also shows that the majority of ownership in the sample is that of a sole proprietor and there is a limitation on the financial depth in Saudi Arabia. As a conservative Islamic country, demand for Islamic banking or Islamic financial institutions in Saudi Arabia cannot be neglected, as the results of the survey evidence the demand. Lastly, the results of the study point out the confidence of Saudi entrepreneurs in the capability of the Saudi business environment to absorb more SME and ensure their profitable existence. The respondents are believed that the government should intervene in the market to encourage the awareness of the importance of SMEs.

The inferential analysis in the last section of the empirical analysis provides some important results that the researcher believed to be significant findings. These are as follows:

- The majority of Saudi entrepreneurs have a fair level of knowledge on Islamic banking products. Hence, there is a significant mean difference between the types of Saudi entrepreneurs in terms of their level of knowledge of PLS. The majority of Saudi entrepreneurs planning to start a business do not have a fair level of knowledge of Islamic banking products, whereas the majority of Saudi operating entrepreneurs do. For the type of businesses there is no significant mean difference in terms of their level of knowledge of PLS.

- The majority of Saudi entrepreneurs think that the environment of the Saudi financial sector is capable of absorbing more SMEs, which is evidenced by not having a significant difference in the mean perception score between various categories of participant SME owners.

- The majority of Saudi entrepreneurs perceive government as the major constraint on business in developing financial systems in Saudi Arabia. The types of businesses have significant differences in the mean level of perception on government as a major constraint on business. In addition, the majority of Saudi small enterprises perceive the government as the major constraint on business in developing financial systems in Saudi Arabia.

- The majority of Saudi entrepreneurs are sole proprietors and partnership is independent of the type of entrepreneur and type of business. The acceptable percentage of ownership of a prospective partner and the expected level of work to be handled by the partner are also independent of one another. Thus, Saudi SME owners are rather wary of the idea of having a business partner.

- The majority of Saudi entrepreneurs are not aware of the appropriate financing for their business. For type of entrepreneurs, the majority of the Saudi entrepreneurs planning to start a business know the appropriate financing for their business whereas the majority of Saudi operating entrepreneurs do not know the appropriate financing for their business. For the type of businesses, there is no significant mean difference in the knowledge on the appropriate financing for their business.

- The majority of Saudi entrepreneurs perceive the PLS contract as being a more suitable financing method for SME. There is significant mean difference between types of entrepreneurs in their perception that PLS is more suitable for SME. The majority of Saudi entrepreneurs planning to start a business do not perceive PLS as a more suitable financing method for SME, while the majority of Saudi operating entrepreneurs perceive that PLS is a more suitable financing method for SME. No significant mean difference exists between the types of businesses in terms of their perception that PLS is a more suitable financing method for SME.

- The majority of Saudi entrepreneurs believe that credit application conditions set by Saudi banks (Islamic and conventional banks) are very challenging. In terms of variation, there is no significant difference in the mean level of difficulty perceived by the type of entrepreneurs and type of businesses in terms of the credit application conditions set by Saudi banks (Islamic and conventional banks).

- The majority of Saudi Arabian banks are reaching out to the business community to overcome the gap which exists between supply of and demand for credit. There is no significant difference in the mean perception score of the Saudi banks' efforts on financing SMEs, between type of entrepreneurs and type of businesses.

- Banks are not the appropriate capital providers for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide. There is no significant difference in the mean perception score, that banks are not the correct capital provider for SMEs, and entrepreneurs therefore need particular support that banks are not willing to provide between the type of entrepreneurs and type of businesses.

- The majority of Saudi entrepreneurs do believe that venture capital companies are more compatible with providing finance for SMEs than other capital providers. There is no significant difference in the mean perception score between type of entrepreneurs and type of businesses that venture capital companies are more compatible to finance SME than other capital providers.

10.4 POLICY RECOMMENDATIONS

The results presented above indicate that stake holders in the SME process, including SME owners, financiers and banks, and the government should undertake new policies and strategies to overcome the challenges confronted by SMEs and financing providers. Therefore, the following recommendations ought to be considered:

Government intervention to support the awareness of the significance of SMEs is crucially important. Therefore, government agencies should play a dynamic and prominent role in this. In addition, the study also showed that the entrepreneurs rely on the capability of the Saudi financial sector to absorb more SMEs and guide them in their business life. This also indicates that government intervention is needed in regulating the financial and business environment for succesful SME business life. The markets are impacted by the limitation of financial depth in the KSA and, therefore, the majority of Saudi entrepreneurs perceive the government as the major constraint on business in developing financial systems in Saudi Arabia. Therefore, entrepreneurs support the intervention by the government only in terms of encouraging SME awareness but also for financing alternatives for SMEs, as the gap between fund-seekers and capital providers shows the need for independent institutional frameworks.

Although a high percentage of entrepreneurs have not practiced PLS with a capital provider, they believed banks were not the appropriate financial institution to finance SMEs through the PLS mode of finance. Hence, the majority of the Saudi entrepreneurs are sole proprietors and perceive PLS as more suitable for SME, whereas the majority of Saudi entrepreneurs planning to start a business do not perceive PLS as more suitable for SME. Entrepreneurs show a lack of financial intelligence and are unclear about their financial needs with regard to capital providers. Entrepreneurs would prefer to be funded by other financial institutions rather than by banks. They are looking for portfolio investment to be integrated with the capacity to provide full or partial support, such as financial, administrative or assistance with the feasibility study; this would be available through the idea of Islamic venture capital.

SMEs in the Kingdom need to have an independent governmental body that can facilitate decision-making related to some important objectives, such as facilitating access to funding from the relevant public and private sectors. Opening channels of communication with the funding institutions, and encouraging them to support the sector should also be the concern of such an independent body. Facilitation of procedures related to the provision of bank credit to the sector can also be resolved by such an independent body. To overcome the problems faced by SMEs in obtaining the necessary funding from commercial banks and specialised financial institutions, and coordination with all relevant authorities to examine and prepare a list of systems appropriate for this type of lending method. Eventually, raising awareness of modern methods of financing such as venture capital is also an important objective.

10.5 SUGGESTIONS FOR FURTHER STUDY

The *mudharabah* and *musharakah* mentioned in this study are the only methods previously implemented for financing SMEs. Further research may target one of the above as a mode of financing for a specific sector of small or medium businesses. Also, SMEs cannot all be regarded as being the same, because each sector would have its own difficulties and challenges. The financing method thought to be optimal for financing small or medium industrial business would not be the same as one used for financing agricultural business. Therefore, the study endeavoured to implement the idea of the possibility of using the above Islamic financial contracts to finance SMEs in general.

As this study comes to its end, the researcher hopes that it has answered the research questions and has fulfilled the research aim. Some interesting issues have arisen in this study that the researcher hopes can give rise to further study, such as the following:

(1) Since the study has covered the city of Jeddah only, researchers might overcome this shortcoming by analysing the capital city of the Kingdom of Saudi Arabia

(Riyadh) and also other cities in the periphery, which have economic difficulties. Targeting entrepreneurs and enlarging the sample would provide the researcher with significant and adequate results. However, extending the sample size can be very difficult in a closed society such as Saudi Arabia.

(2) Further research also needs to be conducted with respect to the disparate sectors of SMEs, i.e. small or medium industrial businesses are unlike agricultural businesses in terms of difficulties and advantages.

(3) Further study may choose to focus on the sectorial origin of SMEs and consider the differences in the mean variances between small and medium businesses.

(4) This study failed to conduct semi-structured interviews, as mentioned in chapter five, with the representatives of the capital suppliers, namely banks, which may be able to provide valuable information from the suppliers. Further research needs to conduct a survey to find out the obstacles and challenges faced by banks in developing strategies to finance SME.

(5) As this study has shown, government intervention is desired in some areas but in other areas government is regarded as an obstacle to businesses. Further research is needed to find ways to increase government support and encouragement and define the area of government intervention and government facilitation of businesses.

BIBLIOGRAPHY

Abalkhail, M. (1999). *Financing Small Firms in Saudi Arabia; A study of Informal Inventors' Characteristics and Decision-Making Behavior*, Unpublished PhD thesis, Loughborough University, UK

Abalkhail, M. and Presley, J. (2002). "How Informal Risk Capital Investors Manage Asymmetric Information in the Profit/Loss-Sharing Contracts", in Munawar Iqbal (ed.), *Islamic Banking and Finance: Current Developments in Theory and Practice.* Leicester: Islamic Foundation.

Abdel-Fattah, A.A. Khalil; Rickwood, Colin and Murinde, Victor (2002). "Evidence on agency-Contractual Problem in Mudharabah Financing Operations by Islamic Banks", in Munawar Iqbal (ed.), *Islamic Banking and Finance: Current Developments in Theory and Practice.* Leicester: Islamic Foundation.

Adnan, M. Abdeen and Shook, Dale N. Shook (1984). *The Saudi Financial System.* Chichester: John Wiley & Sons Ltd.

Ahmed, H. (2005). *Operational Structure for Islamic Equity Finance, Lessons from venture Capital.* Jeddah: Islamic Research and Training Institute, Research Paper No. 69.

Akacem, M. and Gilliam, L. (2002), Principles of Islamic Banking: Debt versus Equity Financing. *Middle East Policy*, vol. IX, n. 1, pp. 124-138.

Al Meeza, H. (2008) Al Salam Bank Managing Director and Board Vice-Chairman, http://www.alsalambahrain.com/directors.aspx

Alasrag, H. (2006). *Enhancing Competitiveness for SMEs in the Arab Countries.* Munich Personal RePEc Archive MPRA

Aleqtisadiah, Newspaper (4th July 2005). *Saudi Businessmen Listen to the progress of the Al-bailad bank plans in Jeddah*, Al-Awad, 2005 Al-Bilad Bank deputy marketing manager, http://www.bankalbilad.com.sa/en/ (in Arabic)

Aleqtisadiah, (13 March 2007). A second conference organized by *Aleqtisadiah newspaper* entertains a selection of experts' investor and businessmen to shed light on the *Venture Capital industry in Saudi Arabia.* (in Arabic)

Aleqtisadiah, Newspaper (27 Feb 2007). A conference organized by *Aleqtisadiah newspaper* entertains a selection of experts' investor and businessmen to shed light on the *Venture Capital industry in Saudi Arabia.* (in Arabic)

Al-Ghamri, N. (2004). *Small Enterprise Management and Indications of Success.* Jeddah: Dar Hafez. (in Arabic)

Al-Hajjar, Bandar (1989). *Financing Small Businesses in Saudi Arabia*, Unpublished PhD thesis, Loughborough University, UK

Al-Hamazani, M. (07 August 2007). "Saudi Islamic banking experts charge Saudi Banks for their mistrust and uncertainty, demanded by the central bank to take regulatory and supervisory role", *Asharqalawsat Saudi Daily Newspaper*. (in Arabic)

Al-harran, S. (eds) (1995). *Leading Issues in Islamic Banking and Finance.* Kuala Lumpur: Pelanduk publication

Al-Jasser, M. and Banafe A. (2005) *Globalisation, financial markets and the operation of monetary policy: the experience of Saudi Arabia.* BIS Paper No 23

Al-Jasser, M. (2002). *Financial Sector Development for Bettor Growth.* Vice Governor, SAMA Working Paper. Plenary 2 on the 3rd day of the Symposium on "A Future Vision for the Saudi Economy until 2020.

Almahrowg, M. and Mokabalah, A. (2006) *Small and Medium Business, Importance and Difficulties*. Small and Medium Enterprises Centre, Established Jointly by the Arab academy for Banking and Financial Science and The industrial Development Bank-Jordan. (in Arabic)

Almus, M. andNerlinger, E. A. (1999). "Growth of new Technology-based firms: Which Factors Matter?", *Small Business Economics*, 13(2), pp.141-154.

Al-Nasser, L. (April 3, 2007). Investment Firms, *Asharqalawsat Saudi Daily*, Newspaper No. 10353(in Arabic)

Alrajihi annual Report (2004) Alrajihi Banking and Investment Cooperation (Saudi Joint Stock Company), The Kingdom of Saudi Arabia, Riyadh. *http://www.alrajhibank.com.sa/reports/Pages/default.aspx,*

Alrajihi annual Report (2006) Alrajihi Banking and Investment Cooperation (Saudi Joint Stock Company), The Kingdom of Saudi Arabia, Riyadh. *http://www.alrajhibank.com.sa/reports/Pages/default.aspx,*

Alrajihi annual Report (2007) Alrajihi Banking and Investment Cooperation (Saudi Joint Stock Company), The Kingdom of Saudi Arabia, Riyadh. *http://www.alrajhibank.com.sa/reports/Pages/default.aspx*

Al-Rifai, A. (1999) *Islamic Equity Funds:* A Brief Industry Analysis, Failaka International Inc. www.failaka.com

Al-Rifai, T. (2003 October). *Islamic Equity Funds*: Workshop; An overview of Islamic finance and the growth of Islamic funds, Presented to Islamic Funds World 6th.

Al-Rifai, T. and Aamir Khan (2000). the Role of Venture Capital in Contemporary Islamic Finance, The International Investor, Kuwait and ABN AMRO, Chicago IL

Al-Sayari, H. (2003, June). *Saudi Arabian Banking System & Capital Markets*, the Saudi British Forum, London.

Al-Sayari, H. S. 17-18 May 2005, Opening Speech of His Excellency the Governor To *the 7th Banking Conference of The GCC Countries,* The Kingdom of Saudi Arbia, Riyadh

Al-Sayari, H. S. In a wide-ranging interview, discusses the evolution of the agency, its role in developing financial markets and the challenges it faces, Interview (2000).

Al-Shahidi, 2008, '*Saudi Arabia among the Gulf States in the "Islamic investment" with trillion Saudi Arabian Riyals*' 01 June 2008, Available at <URL: http://www.ameinfo.com/ar-101584.html> (in Arabic)

Al-Suhaimi, J. (2008, January). *Consolidation, competition, foreign presence and systemic stability in the Saudi banking industry.* BIS Paper No 4

Al-Suwailem, S. (1998). "Venture Capital: A Potential Model of Musharakah", *JKAU: Islamic Econ.*, 10, pp. 3-20.

Al-Suwailem, S. (2000). "Towards an Objective Measure of Gharar in Exchange", *Islamic Economic Studies*, 7 (1 & 2), Apr, pp. 1-42 Annual Performance Review (2003, 2004), The State Bank of Pakistan

Anwar, M (1981), Modeling Interest-free Economy, A study in Macro-economics and development, *the international Institute of Islamic Thought, Islamization of Knowledge* series No 4.

Archer, S. and Abdelkarim R. (eds) Islamic Finance: Innovation and Growth, Euromoney Books, London, (2002).

Ayub, M. (2007). *Understanding Islamic Finance.* Chichester: John Wiley and Sons, Ltd

Aziz, Z. A. (2003, September), *Building a comprehensive Islamic financial system - new financial opportunities*, Keynote address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Institute of Islamic Banking and Insurances International Conference on Islamic Insurance, London.

Aziz, Z. A. (2004, August) *Current issues and developments in Islamic banking and Finance*, the ASLI's Conference on Developing Islamic Banking and Capital Market: "New Opportunities, New Market and New Frontier in Islamic Banking and Finance", Kuala Lumpur

Aziz, Z. A. (2004, January) *Ensuring Stability in the Islamic Financial System*, the 3rd Annual Islamic Finance Summit, London.

Aziz, Z. A. (2004, October) *Sustaining Islamic banking and finance growth through Effective dissemination of information*, the official launching of the Islamic

Banking and Takaful Expo: "Sustaining Islamic banking and finance growth through effective dissemination of information", Kuala Lumpur.

Aziz, Z. A. (2008, July) *Enhancing SMEs' awareness on access to financing*, Keynote address by Dr Zeti Akhtar Aziz, at the Banking Industry Seminar "Enhancing SMEs' Awareness on Access to Financing", Kuala Lumpur.

Babbie, E. (1995) *The practice of social research.* 7th ed. Belmont, CA: Wadsworth.

Baily, K. D. (1978) *Methods of Social Research.* London: Collier-Macmillan

Baka, M. D. (2003). *Contracts in Islamic Commercial and Their Application in Modern Islamic Financial System*, International Islamic University Malaysia (IIUM)

Baldwin, J. (1995) *Innovation the Key to Success in Small Firms*, Micro-Economic Studies and Analysis Division, Statistics Canada and Canadian Institutes for Advanced Research, Economic Projects Growth.

Bank Negara Malaysia, (2005) *Definitions for Small and Medium Enterprises in Malaysia (Approved for Adoption by National SME Development Council on), Available at* <URL: http://www.smeinfo.com.my/pdf/sme_definitions_ENGLISH.pdf> Access Date 8th 2008

Bank of Canada, (2001) *Supporting Small Business Innovation* (2000). Review of the Business Development < URL: http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/rd01118.html> Access Date 10th June 2002.

Bennett, R.J. and Robson P.J.A. (2004) "the role of boards of directors in small and medium-sized firms" *Journal of Small Business and Enterprise Development*, Volume 11. Number 1 . 2004 . pp. 95-113, Emerald Group Publishing Limited, ISSN 1462-6004

Berger, A. and Udell G. (2006). "A more Complete Conceptual Framework for SME Finance". *Journal of Banking & Finance* Vol. 30 No.11 PP 2945-2966

BFA Annual Report, 2003, Bakheet Financial Advisors, Bakheet Investment Group (BIG), is an independent joint stock investment services company Based in The Kingdom of Saudi Arabia. http://bakheetgroup.com/index.asp

BIS (2003, Nov) *Payment systems in Saudi Arabia*, Prepared by the Saudi Arabian Monetary Agency and the Committee on Payment and Settlement Systems of the central banks of the Group of Ten countries.

Bolton, Report, *Report of the Committee on Small Firms*, Cmnd. 4811 (London: HMSO, 1971)

Brierley, N. (2001). *The financing of technology-based small firms: A review of the literature;* Bank of England Quarterly Bulletin, London; Spring 41(1): 64-78.

Brussels, October 2007, *Overview of the Problems Faced by Micro and Small Businesses when Applying the Concept of Eco-efficiency, including Energy Efficiency*, European Association of Craft, Small and Medium-Sized Enterprises. www.ueapme.com

Bryman, Alan (2001) *Social Research Methods*, Oxford: Oxford university press

Bryman, Alan. (2008). *Social Research Methods, 3rd Edition*. Oxford: Oxford University Press.

Buckle, M. and Thompson, J. (1998). *The UK Financial System, Theory and Practice*. Third Edition. Machester: Manchester University Press.

Bygvare, W.D. and J.A. Timmons, *Venture Capital at the crossroad* (Boston, Massachusetts: Harvard Business School Press, 1992)

Carlson, S. (2006, December) *Competitiveness of the Financial Sector*. Overview of the Second International Conference on Financial Systems, Tokyo.

Chapra, M. (2000). *The Future of Economics: An Islamic Perspective*. Leicester: Islamic Foundation.

Chapra, M. U. (1985). *Towards a Just Monetary System*. Leicester: Islamic Foundation.

Choudhury, M. and Abdul-Malik, (1992) *The Foundations of Islamic Political Economy*, London, Macmillan

Choudhury, M. A. (2001). "Islamic Venture Capital a Critical Examination", *Journal of Economic Studies*, 28 (1), pp. 14-33.

Clover, V. T. and Balsley, H. L. (1984) *Business research methods*. 3rd ed. New York: John Wiley and Sons,Inc.

Collier, P. and C. Mayer, "the Assessment: Financial Liberalization, Financial System and Economic Growth", *Oxford Review of Economic Policy*, 5(4) (1989)

Curran, J.(1999) *A Response to the DTI Consultancy Paper on the New Small Business Services*, Unpublished Paper (ISBA Policy Forum, 11October)

Dar, H A. and Presley, J. R. (1999).Islamic Finance: A Western Perspective, *International Journal of Islamic Financial Services* 1 (1)

Dar, H. and Presley, J. R. (2000). Lack of Profit Loss Sharing in Islamic Banking: Management and Control Imbalances, *International Journal of Islamic Financial Service* Vol. 2 No.2

Day, J, Reynolds, P and Lancaster, G. (2001). *the important of correctly defining entrepreneurship when studying marketing in the context of SMEs*, London

Metropolitan Business School, Studies in Social Marketing *Working Paper Series- ISSN 1472-9059*

Dillman, D. (1978) *Mail and Telephone Surveys: The Total Design Method.* New York: John Wiley and Sons, INC.

Djabiev, CEO of Badr-Forte Bank in Moscow, *Speech delivered on SMEs and Islamic Issues* http://islamicbanking.blogsome.com/2006/09/01/financing-for-smes-by-islamic-banks-on-the-rise/

Durrani, M. and Boocock G. (2006) *Venture Capital, Islamic Finance and SMEs Valuation, Structuring and Monitoring Practices in India*, Published by Palgrave Macmillan

EI Interior ,(2006 November). *SME Finance Equity Survey,* Enterprise Ireland Jointly with the Department of Enterprise, Trade and Employment,

El-Gamal, M. (2001) *an Economic Explication of the Prohibition of Riba in Classical Islamic Jurisprudence*, Rice University May 2, 2001

El-Gamal, M. A (2000) *A Basic Guide to Contemporary Islamic Banking and Finance*, Rice University,

El-Gamal, M. A. (2000, August) *An Economic Explication of the Prohibition of Gharar in Classical Islamic Jurisprudence*, prepared for the 4th International Conference on Islamic Economics to be held in Leicester, UK.

El-Gamal, M. El-Megharbel N., and Inanoglu H, (2000) *Beyond Credit: A Taxonomy of SMEs and Financing Methods for Arab Countries*, Draft: February 2000.

Elhiraika, A. B. (2004) *Islamic Financial System and Saving: an Empirical Assessment,* Islamic Development Bank, The kingdom of Saudi Arabia ,Jeddah.

Encyclopaedia of Islamic banking and Insurance, (1995) published by the Institute of Islamic banking and insurance.

Equinox Management Consultants, (2002) *Gaps in SME Financing: An Analytical Framework*, Prepared for Small Business Policy Branch Industry Canada, SME Financing Data Initiative.

Farooq, M. (2006) *Partnership, Equity-financing and Islamic finance: Whither Profit-Loss-Sharing?* Associate Professor of Economics and Finance, Upper Iowa University

Fowler, F. J. (1993) *Survey research methods*. 2nd ed. California: Sage Publications.

Fraser, S. (2005). Finance for Small and Medium-Sized Enterprises: Comparisons of Ethnic Minority and White Owned Businesses, *A Report on the 2005 UK Survey of SME Finances Ethnic Minority Booster Survey,* Centre for Small and Medium-Sized Enterprises, Warwick Business School University of Warwick

Galindo and Micco, (2005) Bank Credit to Small and Medium-Sized Enterprises: The Role of Creditor Protection, *Inter-American Development Bank, December 2005, Working Paper #527*

Gallardo. J, (1999), Leasing to Support Small Businesses and Microenterprises, *World Bank Policy Research Working Paper No. 1857*, November 30, 1999

Gavin, T. M. (1996) Research forum--methodology- measurements, part i: principles and theory. *Journal of prosthetics and orthotics*, [online] 8(2), pp.45-49. Available from: http://www.oandp.org/jpo/library/1996_02_045.asp [accessed .27 th ctober 2002]

Gélinas R and Bigras Y. (2004) the Characteristics and Features of SMEs: Favourable or Unfavourable to Logistics Integration? *Journal of Small Business Management* 42(3), pp. 263–278

Gerrard P. and J. Barton Cunningham (1997). Islamic banking: a study in Singapore, *International Journal of Bank Marketing* 15/6 pp 204–216.

Glancey K. and McQuaid R. (2000). *Entrepreneurial Economics*, Palgrave, Houndmills, Basingstoke, Hampshire RG21 6XS and 175 Fifth Avenue, New York

GOIC, (2008) Gulf Organization for Industrial Consulting *'9% the share of small-scale 'cooperation investments' compared to 60% in America and Europe'*. Available at http://www.alkhaleej.co.ae/portal/b54e9aa2-7c20-4ec2-938f-dac263a92a76.aspx

Hallberg, K. (1999) *Small and Medium Scale Enterprises: A Framework for Intervention*, Small Enterprise Unit, Private Sector Development Department The World Bank, May 21, 1999

Hallberg, K. April 2000 A Market-Oriented Strategy for Small and Medium Scale Enterprises. *International Finance Corporation. Discussion Paper IFD40*

Hans, Landström (2005). *Pioneers in Entrepreneurship and Small Business Research*, ISEN International Studies in Entrepreneurship, Springer Science + Business Media, Inc

Harding, R. (2002) 'Plugging the Knowledge gap: an international comparison of the rile for policy in the venture capital market', *Venture Capital*, (1) (2002) 59-76

Harvie, C. and Lee, B.C., (2001)'East Asian SMEs: Contemporary Issues and Development – an Overview' in Harvie C. and Lee, B.C (eds), *The Role of SMEs National Economies in East Asia* (Cheltenham, UK: Edward Elgar, 2001) Chapter 1, pp 1-20.

Heffernan, S. (1996). *Modern Banking in Theory and Practice*, Published by John Wily and Sons Ltd.

Hillier, Brian and. Ibrahimo, M. V (1993). Asymmetric Information and Models of Credit Rationing, *Bulletin of Economic Research*, 45(4): pp 271-304.

Hitt, M. R. Duane Ireland, Donald L. Sexton (2002). *Strategic Entrepreneurship Creating a New Mindset*, Published by Blackwell Publishing

Ibrahim, B. A and Vijaykumar, K. (1998) Islamic *Musharaka"* versus "limited conventional" partnership modes of finance – Is *Musharaka* really different from limited conventional partnership? The ERF 10th annual conference www.erf.org.eg/tenthconf/financial _markets _background/Ibrahim.Pdf

Ibrahim, B. A. (2003). Poverty Alleviation via Islamic Banking Finance to Micro-Enterprises (MEs) in Sudan: Some lessons for poor countries. *Institute for World, Economics and International Management (IWIM), Sudan Economy Research Group, Discussion Paper No. 35*

Ibrahim, W. (2000). *Islamic finance in the Global Economy*, Edinburgh University press

IKD, (2006). *e-Governance Issues in SME Networks,* The Open University, Research Centre for Innovation, Knowledge and Development. The Open University Business School Walton Hall, *Working Paper.*

International Entrepreneurship Forum and Exhibition 2004, Dubai International Convention Centre (DICC). 23rd — 25th May 2005 www.entrepreneursindubai.com

Iqbal, M. and Llewellyn D (eds) *Islamic Banking and Finance, New Perspectives on Profit-Sharing and Risk*, Edward Elgar, (2002)

Iqbal, M. and Molyneux P. (2005), *Thirty Years of Islamic Banking, History, Performance and Prospects*, Published by Palgrave Macmillan.

Iqbal, Zubair, and Abbas Mirakhor (1987), *Islamic Banking,* IMF Occasional Paper No. 49, Washington.

Isad, R. (2007). Islamic banking absent from innovation .. The conflict of Fatawa cause loses of confidence in the market, submitted by member of the Saudi Economic Association, *Working paper.*

Ishrat, Husain (2004, *December*) *Unleashing entrepreneurship*, Chief guest address by Mr Ishrat Husain, Governor of the State Bank of Pakistan, at the launching of UN Secretary General's Report on Unleashing entrepreneurship, Karachi.

Ishrat, Husain (2005, *October*) *Pakistan's financial sector - a roadmap for 2005-2010*, Keynote address by Mr Ishrat Husain, Governor of the State Bank of Pakistan, *at the 54th Annual General Meeting of the Institute of Bankers, Pakistan, Karachi.*

Ishrat, Husain, (2005, January) *Banking sector reforms in Pakistan*, Article by Mr Ishrat Husain, Governor of the State Bank of Pakistan, reproduced from Blue Chip - *The Business People's Magazine.*

Islahi, A. (1988). *Economic Concepts of Inb Taimiyah*, the Islamic Foundation, Islamic Economics Series-12

Islamic Equity Funds: Analysis and Observations on the Current State of the Industry (March 5 2002), Failaka International Inc Available at (www.failaka.com)

Joseph, Farhat, M. Kabir, Hassan and Bashir Al-Zu'bi (undated), Dividend signalling Hypothesis and Short-term Asset Concentration of Islamic Interest-Free Banking, *Working Paper 0221,*

Kahf, M. and M. Khan F. (1992). *Short Term Financing of Commodity Production in Islamic Perspective*, Presented to the seventh Annual Meeting of the Experts of Islamic Banking, Kuala Lumpur.

Kalton, G. (1983) *Introduction to survey sampling.* Sage University Paper series on Quantitative Applications in the Social Sciences. Series No. 07-035. Beverly Hills and London: Sage Publications.

Kamali, M. (2000, page 85) *Islamic Commercial Law, an Analysis of Future and Option*, Published by the Islamic Texts society

Kara, A. (2001) On the Efficiency of the Financial Institutions of Profit-and-Loss-Sharing, *Journal of Economic & Social Research* 3(2) 2001, 2002 Preliminary Issue, 99-104

Khan, A. (2002, January) *Developing Shariah-Compliant Product & Services to Fit Today's Market*, EuroMoney Seminars London Hilton, Islamic Product & Services Development

Khan, T. BenDjilali B. (2002), Modeling an Exit Strategy for Islamic Venture Capital Finance, *International Journal of Islamic Financial Services*, Vol.4, No.2

Khan, M.S. and Mirakhor, A. (1987). The Framework and Practice of Islamic Banking, in. M. S. Khan and A. Mirakhor, *Theoretical Studies in Islamic Banking and Finance* , The Institute for Research and Islamic Studies, Texas, USA

Kirchhoff, B. (1994) *Entrepreneurship and Dynamic Capitalism, the Economics of Business Firm Formation and Growth*, Praeger Puplishers, 88 post Road West, Westport, CT 06881

Kuratko, D.F. and Hodgetts R.M. (2007). *Entrepreneurship Theory, Process, Practice. Seventh Edition*, Thomson South-Western.

Lehmkuhl, (1996) Nonparametric Statistics: Methods for Analyzing Data Not Meeting Assumptions Required for the Application of Parametric Tests, JPO Journal of Prosthetics & Orthotics. 8(3):105-113, Summer 1996, American Academy of Orthotists & Prosthetists

Lerner, J. When Bureaucrats meet Entrepreneurs: The Design of Effective "Public Venture Capital" Programmes, *Economic Journal*, 112 (February) 2002 F73-84

Levin, Irwin P. (1999 P.25). *Relating statistics and experimental design.* Thousand Oaks, CA: Sage Publications. Quantitative Applications in the Social Sciences series #125. Elementary introduction covers t-tests and various simple ANOVA designs. Some additional discussion of chi-square, significance tests for correlation and regression. and non-parametric tests such as the runs test, median test, and Mann-Whitney U test.

Looney, R. (2004) Development Strategies for Saudi Arabia: Escaping the Rentier State Syndrome Strategic Insights, *Naval Postgraduate School Volume III*, Issue 3 (March 2004)

Lucio, P. (2001). *The Arab Region, Financial Technology Change*, Organized by, Global Forum on Management of Technology Focus *United Nations Industrial Development Organization*

Lunsford, (1993). Statistics: Screening and Data Summary, *JPO Journal of Prosthetics & Orthotics. 5*(4):52-57, October 1993-Gardner, P. L. (1975). Scales and statistics. *Review of Educational Research.* 45: 43-57. Discusses assumptions of the t-test.

Lydall, H. (1992) *The Entrepreneurial Factor in Economic growth*, Macmillan Acadamic and Professional LDT, Houndmills, Basingstoke, Hampshire RG21 2XS

Malaysian Bank Islam Annual Report, (2004) Statistical review for Five Years Available at <URL http://www.bankislam.com.my/

Malaysian Bank Islam Annual Report, (2007) Statistical review for Five Years Available at <URL http://www.bankislam.com.my/

Malik, and Waraich, (2006). *the pulse of SMEs, Basel II the guarantees of the financing of SMEs, Financial transactions for Small business*, July 2006, Al-Rajhi Bank Economic Unit. (in Arabic)

Malik, and Waraich, (2006). *the pulse of SMEs, The act of SME's development policies in the kingdom of Saudi Arabia, Financial transactions for Small business*, September 2006, Al-Rajhi Bank Economic Unit. (in Arabic)

Mallat, C. (eds) *Islamic Law and Finance* (1994) Graham and Trotmon Limited

Mark, Havers (1999) Microenterprise and small business leasing– lessons from Pakistan, *Small Enterprise Development Journal Vol.* 10 No. 3

Matthew, A. Zook (2004) the Knowledge Brokers: Venture Capitalists, Tacit Knowledge and Regional Development, *International Journal of Urban and Regional Research, Volume 28.3* September 621-41

Maula, M. Autio A. and Murray G. (2005). Corporate Venture Capitalists and Independent Venture Capitalists: What do they know, Who do They Know and Should Entrepreneurs Care? Venture Capital: *An International Journal of Entrepreneurial Finance Vol. 7*, No. 1, 3 – 21, January.

Maurer, B. (2002). *Anthropological and accounting knowledge in Islamic Banking and finance: Rethinking Critical accounts*. J. Roy. Anthrop Inst. (N.S.) 8, 645-667, University of California at Irvine.

Moinuddin, H (1987), *The Charter of the Islamic conference, Legal Framework of Economic Co-operation among its Member*. The Organisation of the Islamic Conference, The Kingdom Of Saudi Arabia, Jeddah.

Moore, D. S. (1995). *The basic practice of statistics*. NY: Freeman and Co.

Moorman J. and Halloran J. (1993). *Entrepreneurship*, South-Western Publishing Co.

MSME Report (2006) *Definitions of Micro, Small & Medium Enterprises*, Office of the Development Commissioner, Ministry of Micro, Small & Medium Enterprises (MSME) Government of India, http://www.laghuudyog.com/ssiindia/defination_msme.htm

Muljawan, D. Dar, H. and Hall, M. (2002), *a Capital Adequacy Framework for Islamic Banks: The Need to Reconcile Depositors' Risk Aversion with Managers' Risk Taking*, Department of Economics, Economic Research, Loughborough University.

Nachmias, C, and Nachmias, D. (1996) *Research methods in the social sciences*. 5th ed. New York: St. Martins.

NCB Market Review, (2003) *Market Review and Outlook*, the Saudi National Commercial Bank, Economics Department, Volume 12-Issue 12 April 25, 2003

NCB Report (2004), National Commercial bank Board of Directors' Financial Report for the Year 2004, To NCB shareholders. The Kingdom of Saudi Arabia

NLG (2004). *Profile of Small and Medium-sized Enterprises in the Canadian Cultural Industries* Nordicity Group Ltd. Prepared for: Department of Canadian Heritage March 2004

Noman, A. M. (2002). Imperatives of Financial Innovation for Islamic Banks, *International Journal of Islamic Financial Services, Vol.*4, No.3

Obaidullah, M (eds) (2000), *International Journal of Islamic Financial Services Vol. 2 No.2, July- Sept. 2000*

Obaidullah, M. (2001). Financial Contracting in Currency Market: an Islamic Evolution, *International Journal of Islamic Financial Services, Volume 3*, Number 3

Obaidullah, M. (2002), Islamic Risk Management: Towered Greater Ethics and Efficiency, *International Journal of Islamic Financial Services, Volume 3*, Number 4

OECD, (2004). Promoting Entrepreneurship and Innovative SMEs in a Global Economy towards a more Responsible and Inclusive Globalisation. Second OECD Conference of Ministers Responsible for Small and Medium-Sized Enterprises(SMEs) Executive Summary of the Background Reports *Istanbul, Turkey 3-5 June 2004*

OECD, (2006) *the SME Financing Gap, Theory and Evidence*, Organisation for Economic Co-operation and Development (OECD) Volume 1

OECD, (2006). *Financing SMEs and Entrepreneurs,* Policy Brief report in November 2006, , Organisation for Economic Co-operation and Development (OECD)

Omar, M. (2006, December). *Enhancing Access to Financing by Small & Medium Enterprises in Malaysia*, Presentation at the 2nd International Conference on Financial Systems: Competitiveness of the Financial Sector Tokyo.

Otsuki, M. (2002, October) *SMEs Supporting Systems in Saudi Arabia*, expertise on SMEs to Saudi Arabian General Investment Authority (SAGIA) Riyadh.

Pallant, J. (2002). *SPSS Survival Manual: A step by Step Guide to Data Analysis Using SPSS*. Philadelphia, Open University Press.PP. 1 of 11

Presley, J. (2003). *Prospects for the Saudi Economy*, Public Affair Department, the Saudi British Bank

Radwan, I. and Al-Kibbi, J (2001). prepared for the Economic Vision Conference, Riyadh, Saudi Arabia, October 2001, Small and Medium Enterprise Centre, Ismail Radwan, Economist and Jamal Al-Kibbi Senior Economist World Bank Institute. *Working Paper* (in Arabic)

Radwan, (2004) workshop in Small and medium enterprises in the Arab world: problems and prospects of development . *Assessment of small and medium enterprises*) Egypt 18-22 January 2004, SMEs Saudi Arabia(Indeed, the obstacles impeding development) Radwan is Director of the Center for SME development - the Chamber of Commerce and Industry in Riyadh Saudi Arabia (in Arabic)

Riyadh, Newspaper (23/08/2005) *The Royal granted to improve the standard of living of the Saudi citizens and support the national economy*, Increase the salaries of state employees and by 15%, No. 13574 *Riyadh daily Newspaper* (in Arabic)

Roscoe, J.T. (1975) *Fundamental research statistics for the behavioural sciences*. 2nd ed. New York: Holt Rinehart and Winston.

Rosly, S. A. (2005). *Critical Issues on Islamic Banking and Financial Market, Islamic Economics, Banking and Finance, Investment, Takaful and Financial Planning*, Published by Author House.

Rosly, S. A. and Abu Bakar M. A. (2003) Performance of Islamic and Mainstream banks in Malaysia, *International Journal of Social Economics Vol. 30* No. 12, 2003 pp. 1249-1265 q MCB UP Limited, 0306-8293, Department of Economics, International Islamic University Malaysia, Kuala Lumpur, Malaysia

Salant, P. and Dillman, D. A. (1994) *How to conduct your own survey*. New York: Wiley.

SAMA (2003), *Small and Medium enterprise statistical survey*, The department of Research And Development, The Saudi Arabian Minatory Agency.

SAMA annual report, (2007). *43rd Annual Report,* 1428H (2007G) Research and Statistics Department, Saudi Arabian Monetary Agency

Samba Economic Watch (2000). *Saudi Arabia's New Five-Year Development Plan.* Saudi American Bank.

Samba Economic Watch (2000). *Saudi Arabia's New Foreign Investment Law*. Saudi American Bank. Economic Bulletin March - April 2004,

Samba Economic Watch (2000). *Saudi Arabia's New Foreign Investment Law*. Saudi American Bank.

SARIE (2003). *Saudi Arabian Riyal Interbank Express*, Saudi Arabian Monetary Agency

Sarker Md. A (1999). Islamic Business Contracts, Agency Problem and the Theory of the Islamic Firm. *International Journal of Islamic Financial Services Vol. 1* No.2

Saudi Arabian Monetary Agency, (2004,February) . *A Case Study on Globalization and the Role of Institution Building in the Financial Sector in Saudi Arabia*. The Central Bank Publication.

Saudi Equity Market annual Review 2006 (Tadawal) Statement by H. E. the Chairman and CEO, the Kingdom Of Saudi Arabia. Available at <URL: http://www.tadawul.com.sa/wps/portal/!ut/p/.cmd/cs/.ce/7_0_A/.s/7_0_4A3/_s.7_0_A/7_0_4A3

Saudi Minister of Commerce (2001) *The Saudi businessmen*, Speech by the at the opening of the Sixth Conference in the city of Taif, the Kingdom of Saudi Araiba.

Saudi Ministry of Planning, Seminar, (October 2002). *Saudi Arabia's Globalization Challenge the Role of Banks and Capital Markets Saudi Arabia's Economy: A Vision to the Year 2020.* The Saudi Arabian Monitory Agency (SAMA), The Central Bank

Sekaran, U. (1992) *Research methods for business: a skill building approach.* 2nd ed. New York: John Wiley and Sons, Inc.-Riyadh Newspaper 23/08/2005 No. 13574, improving the standard of living of citizens and support the national economy

Sheplag, (2003). *The SMEs neither between continuous deterioration nor the planning promising* (Arabic article) survey study among the Capital city of the Kingdom (Riyadh) submitted to the Council of the Saudi Champers. Pro Sheplag is a member of the Saudi Management Association.

Shirazi, H (1988), *Islamic Banking :contracts*. Central Bank of the Islamic Republic of Iran, Publication No;6.

Siddiqi, M. N. (1985) *Partnership and Profit-Sharing in Islamic Law*, the Islamic Foundation, Islamic Economic Series-9

Siddiqi, M. (1983), *Banking without interest*, The Islamic foundation

Siddiqi, M. (1987) *Partnership and Profit-Sharing in Islamic Law*, the Islamic Foundation, Islamic economic series 9.

Siegel, (1956). *Nonparametric Statistics: for the Behavioural Science*, Published by New York, McGraw-Hill

Small and Medium Business and Banking survey (2004). Conducted by the Saudi Chamber of Commerce and Industry, Council of Saudi Champers, Department of SME Development Center available at <URL http://www.saudichambers.org.sa/index_en.htm

SMEs gives support to young Saudis, 18/01/2004, Makah governor opens 5th Jeddah, Article, SMEs conference closes sessions and gives support to young Saudis, Economic forum Available At <URL http://www.guraf.org/page.asp?s_contentid=54642&lan=en

State Bank of Pakistan, (2004) *Detailed Criteria for Setting up of Scheduled Islamic Commercial Bank,* Based on Principles of Shariah in the Private Sector, Annexure-I to IBD Circular No. 02

State Bank of Pakistan, (2004, July). *Financial System Stability Assessment*, including Reports on the Observance of Standards and Codes on the following topics: Monetary and Financial Policy Transparency, Banking Supervision, and Securities Regulation , International Monetary Fund, IMF Country Report No. 04/215

STC, (2002) *Public Investment Fund*, Prospectus, Saudi Telecom Company, Financial Adviser Gulf International Bank B.S.C

Steihoff, D. and Burgess J. (1993), *Small Business Management Fundamentals*, Mcgraw-Hill, Inc

Stokes, D. (1992). *Small Business Management.* London DP Publication Ltd

Storey, D. J. (1994). *Understanding the Small Business Sector*, Published by Routledge

Sudin, Haron and Norafifah, Ahmad (2000). the Effects of Conventional Interest Rates and Rate of Profit on Funds Deposited With Islamic Banking System in Malaysia, *International Journal of Islamic Financial Services Vol.* 1 No.4

Suseno, P. (2002). *Size, Profitability and Agency Problems in Profit Loss Sharing in Islamic Finance*, Universities Islam Indonesia

Tadawul Annual Review, (2006) Saudi Capital Market (Tadawul) , Annual Review 2005, Prepared by Market Information Dept

Tadawul Annual Review, (2006) Saudi Capital Market (Tadawul) , Annual Review 2006, Prepared by Market Information Dept

Tadawul Annual Review, (2006) Saudi Capital Market (Tadawul) , Annual Review 2007, Prepared by Market Information Dept

Taleqani, S.M. (1983), *Islam and Ownership*, Published by Mazdã, 1983

Tarek, S. Zaher and M. Kabir Hassan (2001). *A Comparative Literature survey of Islamic Finance and Banking, Financial Markets, Institutions and Instruments*, V. 10, No, 4, November New York University Salomon Centre

Taucean, I.M.; Taroata, A. and Tamasila M. (2008, April). *Management for Productivity in SMEs and Entrepreneurship Activity*, 6th International DAAAM Baltic Conference, Industrial Engineering Tallinn, Estonia

The Council of Saudi Chambers, (2003, October) *The SMEs as an Essential Part for the Desirable Economic Growth*, the Saudi SMEs centre, King Fasol Conferences Hall Working Paper.

The Council of Saudi Chambers (2005) The Role of Chambers of Commerce and Industry and the Council of Saudi Chambers In Development of small and medium enterprises in Saudi Arabia, *Working paper.*

The Council of Saudi Chambers of Commerce and Industry, (2002). *small and medium enterprises between reality and the future, Working paper.*

The Excellency the governor to the Custodian of the Two Holy Mosques, (2007) Speech on the Occasion of Presenting *the 44th Annual Report of SAMA*

The Saudi SMEs centre, (2005): *the development of small and medium enterprises in Saudi Arabia,* the mission of the Council of Saudi Chambers and the Chambers of Commerce and Industry, Working paper

The State Bank of Pakistan, (2004), *Handbook of Key Regulations for Commercial Banks in Pakistan*, (2004) edition

Thirty-Eight Annual Report, (2002).Research & Statistics Department, Saudi Arabian Monetary Agency.

Thirty-Fifth Annual Report, (1999).Research & Statistics Department, Saudi Arabian Monetary Agency.

Thirty-Fourth Annual Report, (1998).Research & Statistics Department, Saudi Arabian Monetary Agency.

Thirty-Seventh Annual Report (2001).Research & Statistics Department, Saudi Arabian Monetary Agency.

Thirty-Sixth Annual Report, (2000).Research & Statistics Department, Saudi Arabian Monetary Agency.

Tlemsani, I and Matthews, R. (2002). *Ethical Banking: the Islamic View*, Kingston Business School London

Tlemsani, I. and Matthews, R (2001). *Incentive Compatible Contracts: The Islamic View* (A Discussion Paper), submitted for the special session on Issues in Islamic Economics at the 76th annual conference of the WEAI 2001

Trochim, W. (2001) *The research methods knowledge base.* [online] Cornell University. New York. Available from: http://trochim.human.cornell.edu/kb/resques.htm [accessed 12th March 2001]

U.S.-Saudi Arabian Business Council-2004, http://www.us-sabc.org/i4a/pages/index.cfm?pageid=1

UEAPME, (2006). *European Policy for Crafts and SMEs: Now it's time for concrete actions,* UEAPME's SME policy message to the European Council, European Council Spring 2006.

United Nations report (2001), *Improving the Competitiveness of SMEs in Developing Countries, the Role of Finance to Enhance Enterprise Development.* United Nation, New York and Geneva, 2001

United Nations report, (2002) *Proceeding of the symposium on Modalities for Financing SMEs in Uganda*, New York and Geneva.

Usmani T. 2000, Murabahah, *Published by Accountancy*, Accounting Audit and Tax resources, http://www.accountancy.com.pk/

Usmani, M. (1999), *An Introduction to Islamic Finance*, The Islamic Foundation.

Wetzel, W.E., (1982) 'Risk Capital Research', in kent, C.A., Sexton, D.L. and Vesper, K.H. (eds), *Encyclopaedia of Entrepreneurship* (Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1984)

Wilson, (2002). *The Interface Between Islamic and Conventional Banking (summary)* eds (Munawar Iqbal) Islamic Banking and Finance : Current Development in Theory and Practice

Wilson, R. (2005). *The Efficiency of the Financial and Banking Sector in the Kingdom*, Study undertaken by Professor Rodney Wilson of the University of Durham in preparation for the Eighth Development Plan of Saudi Arabia

Wilson, R. (eds) *Islamic financial markets* (1990) Published 1990 by Rutledge

Wilson, R. Al-Salamah, A. Malik, M. and. Al-Rajhi, A. (2004). *Economic Development in Saudi Arabia.* Durham Modern Middle East Islamic World Series 1

Wilson, (1997), *Economics, ethics, and religion: Jewish, Christian, and Muslim economic thought,* New York : New York University Press.

Wilson, Cmnd. 7530: *The Financing of Small Firms – Interim Report of the Committee to review the Functioning of Financial Institutions* (London: HMSO, 1979)

Wilson, Cmnd. 7937: *Report of the Committee to Review the Functioning of Financial Institutions* (HMSO: London, 1980)

World Development Report, (2005) *A Better Investment Climate-for Everyone*, Part III Beyond the Basics.

Yahia, Abdul-Rahman (1999). Islamic Instruments for Managing Liquidity, *International Journal of Islamic Financial Services 1* (1)

Zawya report, (23 January 2008), Islamic banks' assets to hit $1trn by 2010' Available at: <URL: https://www.zawya.com/story.cfm/sidZAWYA20080123031513/Islamic%20banks'%20assets%20to%20hit%20$1trn%20by%202010%20

Zikmund, W. G. (2000), *Business Research Methods.* 6th ed. Fort Worth: Dryden Press and Harcourt College Publishers.

Internet links,

http://www.riyadbank.com.sa/

http://www.alrajhibank.com.sa/finPortal/published/home/index.jsp

http://www.baj.com.sa/

http://www.alahli.com.sa/

http://www.sabb.com.sa/

http://www.samba.com.sa/index.html

http://www.sama.gov.sa/indexe.htm

http://www.tadawul.com.sa

http://www.bfasaudi.com/

http://www.bankalbilad.com.sa/en/

http://www.planning.gov.sa/indexe.htm

Saudi Industrial Development Bank (SIDB), http://www.sidf.gov.sa/English/SIDF-estab/SMEs.doc_cvt.htm

Al-Rasalh Broadcast in Fatwa Programme Presented by Abdumohsin Albaker, http://alresalah.ws/

http://www.guraf.org/page.asp?s_contentid=54685&lan=en

Appendix

Dear Small and Medium business investors

Understanding the significance of SMEs (Small and Medium Enterprise) and the demands of young Saudis, the Government is now taking several measures to fulfil the financing needs of SMEs. The Saudi Government has recently implemented a new commercial law that has increased the demand for investing in SMEs, particularly by young people who constitute the highest proportion of the Saudi population. Thus, the financial system of Saudi Arabia is under great pressure to fulfil the financing needs of SMEs.

Currently I am conducting a doctoral research at Durham University in the UK. The objectives of the research are firstly to evaluate the practice of SMEs financing; and secondly and most importantly, to investigate the appropriate method of financing for SMEs which is *Shariah* complaint but at the same time efficient. You are among those who have been chosen in the group of SMEs operators and fund seekers.

I shall be most grateful if you could kindly spare the time from your busy schedule to complete this questionnaire and return it back as soon as possible. Your responses to the questions will be treated as most confidential.

Yours truly,

Mohammed Binzomah
Binzomah
Durham University
School of Government & International Affairs
Institute for Middle Eastern and Islamic Studies
The UK

Mohammed

Makkah Water Co.
P O Box 9002
Jeddah 21413
Saudi Arabia
0555-611-228

9

9 Small businesses are those businesses occupy capital less than 1000000SR and their employers are less than 21, medium businesses are those businesses occupy capital more than 1000000SR and less than 15000000 and their employers more than 20 and less than 100. (Small & Medium Enterprises Development Center)

Part 1

1- What profit and loss sharing (PLS) mean to you?
☐ Islamic financial instrument
☐ Conventional funding method
☐ Banking financial product
☐ Other (please specify)

2- "A joint enterprise in which all the partners share the profit or loss of the joint venture", this definition explains which of the following financial instrument?
☐ Mudharabah
☐ Musharakah
☐ Murabahah
☐ Ijara
☐ Bai-alSalam
☐ Bai-istisna
☐ Lease Purchase
☐ Other (please specify)

3- "The investment comes from the first partner while the management and work is an exclusive responsibility of the other partner", this definition explains which of the following financial instrument?
☐ Mudharabah
☐ Musharakah
☐ Murabahah
☐ Ijara
☐ Bai-alSalam
☐ Bai-istisna
☐ Lease Purchase
☐ Other (please specify)

4- "One partner provides capital to another for investing it in a commercial enterprise", this definition explains which of the following financial instrument?
☐ Mudharabah
☐ Musharakah
☐ Murabahah
☐ Ijara
☐ Loan
☐ Other (please specify)

5- Have you ever used Mudharabah or Musharakah when you deal with capital providers?
☐ Yes (please specify)
☐ No

6- Do you think profit and loss-sharing contract (PLS) is more suitable for SMEs?
☐ Strongly disagree
☐ Disagree
☐ Don't know
☐ Agree
☐ Strongly agree

7- Do you know what kind of financing is more appropriate for your business?
☐ Yes, please specify
☐ No

8- Do you or have you worked with Islamic banks for PLS-oriented financing?
☐ Yes
☐ No

Part 2

9- Which of the following attracted you to deal with Islamic financial instruments?
☐ Religiosity
☐ Profitability
☐ Competitive services
☐ More access to finance
☐ Other, please specify
☐ I do not prefer any kind of fund

10- Do you utilise fund from your bank account in order to; (You can choose more than one option)
☐ Invest directly by yourself
☐ Invest through friends
☐ Deal with Islamic banks or window
☐ Deal with a conventional bank
☐ Deal in Saudi stock market
☐ Transfer to another account
☐ Keep it at home
☐ Purchase consumer goods
☐ Other

11- If you need money for business reason, who would you borrow from?
☐ An Islamic bank or Islamic Financial Institution
☐ Any financial institution offers conventional loans
☐ A friends or family
☐ Other (please specify)

12- If you have the project ready and there is no Islamic finance available, would you go with conventional financial instruments?
☐ Yes
☐ No

Part 3

13- What is the main reason for staring your own business?
☐ To become self-employed and gain more independence
☐ Because the expected income from self-employment is greater than the income from a salaried position
☐ To follow the family tradition
☐ Because there were no other employment opportunities available to generate income
☐ To improve the living conditions
☐ Other (please specify)

14- Please indicate the most important factor you consider when you decide to undertake a new business.
☐ Familiarity with the business
☐ It is the season the product or services is in demand
☐ What others are doing
☐ The business seemed profitable
☐ The working capital required for the business
☐ I can do it and still take care of my family and other responsibilities.

15- Would you tell us more about the business you are involved, such as?

Type of activities?		
How much do you need for starting capital?	☐ less than 1 Million	☐ 1 million to 15 million
What is your current capital?	☐ less than 1 Million	☐ 1 million to 15 million
How many employees do you expect to have?	☐ 20 and less	☐ 21 and more

16- What is your business ownership structure?

☐ Sole proprietor
☐ Family partnership
☐ Non-family partnership
☐ A limited liability company
☐ Other (please specify)

17- If you are to have a partnership in your business, what is an acceptable percentage that could be owned by a partner?

☐ Less than 25%
☐ From 26% to 49%
☐ From 50% to 75%
☐ Don't want a partner (go to question 19)

18- What kind of work should the partner be responsible of?

☐ Administration (solving daily operation)
☐ Marketing
☐ Providing money only
☐ Providing raw material, machinery or equipment
☐ Other (please specify)

Part 4

19- In your opinion, what do you think of the financial conditions set by an Islamic banks or Islamic windows in other conventional banks when you apply for finance for your business?

☐ Very difficult
☐ Difficult
☐ Reasonable
☐ Easy
☐ Very easy

20- In your opinion, what do you think of the financial conditions set by conventional banks when you apply for finance to your business?

☐ Very difficult
☐ Difficult
☐ Reasonable
☐ Easy
☐ Very easy

21- When you apply for fund, do you provide a business plan (feasibility study) to the capital provider?

☐ Yes
☐ No (go to question 24)

22- Did you audit your business plan by external parties?

☐ Yes
☐ No

23- According to your business plan, do you think you need:

☐ Capital fund
☐ Operational fund
☐ Machinery fund
☐ All of them
☐ Other (please specify)

24- How would you rank your business risk?
☐ Extremely Risky
☐ Risky
☐ Normal Risk
☐ Less Risky
☐ No Risk

25- How would you classify your project?
☐ Long-term investment
☐ Medium-term investment
☐ Short-term investment
☐ Other

26- In which sector is your project fit?
☐ Manufacturing
☐ Services
☐ Construction
☐ Real estate
☐ Agriculture
☐ Retail/ wholesale trade
☐ Other (please specify)

27- If you have enough fund to start your own business would you ask for fund from capital provider?
☐ Yes
☐ No (please go to question 29)

28- Which of the following capital provider would you request fund from? (Please rank the options, 1 being the most preferred, and 5 is the least preferred,
☐ Islamic bank
☐ Conventional bank
☐ From the capital market (please specify)
☐ Friends or family
☐ Other (please specify)

29- What do you expect from the capital provider?
☐ Fully financial support
☐ Partially financial support
☐ Technical support
☐ Managerial support
☐ Temporarily officer rant for cheaper rate than market
☐ Expertise and skills
☐ Other (please specify)

30- What form of financial return would you prefer on your capital investment?
Capital gain: The profit that you gain when you sell the venture later on
Dividends: The profit that you receive from the venture on a yearly basis
☐ Entirely long-term capital gains
☐ Mostly long-term capital gains
☐ Part capital gains, part current dividends
☐ Mostly current dividends
☐ Entirely current dividends

31- To what extent do you consider each of the following items as a constraint for your business?

Constraints	Not at all	To a limited extent	To an average extent	To some extent	To a great extent
Bank's condition for fund					
Lack of basic public, Services, utilities					
Government regulation (Bureaucratic procedures labors regulations etc.)					
High cost of raw material					
Lack of access to finance or liquidity constraints					
Lack of saving facilities					
Uncompetitive market for funds					

Part 5
(For SMEs in Operation)

32- How did you finance the initial start-up costs of the business?
(You can choose more than one option)

☐ Self financing /personal savings
☐ Relatives, friends or inheritance
☐ Partnership with relatives
☐ Partnership from outside the family
☐ Conventional finance (please specify)
☐ Islamic finance (please specify)
☐ Trade/ supplier credit
☐ Other (please specify)

33- How did you use the initial start-up capital?

☐ For the capital fixed cost
☐ For operational cost
☐ Other (please specify)

34- What source do you use for financing your ongoing operation?
(You can choose more than one option)

☐ Retained earnings of the business
☐ Individual money lender
☐ Trade/supplier credit
☐ Sell equity in the business
☐ Borrowing from the banks
☐ Borrowing from relatives or friends
☐ Islamic Fund (please specify)
☐ Other (please specify)

35- Have you ever had any difficulty in making a payment?

☐ Yes
☐ No (please go to question 37)

36- What caused your repayment difficulties?
☐ The business activities was not profitable
☐ Used some of the fund for non-business reason
☐ Poor market demand
☐ Raw material problems
☐ Other

37- What is your products cycle for the business?

How much is your average total sales (cash and credit)?	☐ Up to 5 millions ☐ More than 5 millions
How much is your estimated total cost for your last product cycle?	☐ Up to 5 millions ☐ More than 5 millions
How long does it takes from the time you purchase input to the time you sell most of the product? (Per week, if possible)	☐ Up to 24 weeks ☐ 25 weeks and more

38- What is your starting capital and what is your current capital and employees?

Starting Capital	☐ Less than 1 million	☐ 1 million to 15 million
Current Capital	☐ Less than 1 million	☐ 1 million to 15 million
Current employees	☐ 20 and less	☐ 21 and more

39- Have you in counterparty any business problems with your partner?
☐ Yes
☐ No (go to question 41)

40- How would you specify these problems?
.....
.....
.....

41- What kind of collaterals did you submit to the capital provider to get the fund?
☐ Land and building
☐ Business equipment and machinery
☐ Personal collateral (another person to guarantee you)
☐ Signed post-dated cheques or promissory notes
☐ Other (please specify)

42- Has the financial intermediary that you required from your PLS partner intervened in running the business?
☐ Yes
☐ No

43- What is your future strategy for the next three years?
☐ Maintain the same size of the business
☐ Enlarge the size of the business
☐ Reduce the size of the business
☐ Enter into new business
☐ Other

44- How would you mainly, plan to finance this future investment?
☐ Personal savings/ Retained earning of the business
☐ Having loan from conventional bank
☐ Having fund from Islamic bank (please specify)
☐ Having a partner
☐ Other (please specify)

Part 6
(Saudi Arabian Business Environment)

45-Do you agree that the government should intervene to encourage the awareness of the importance of SMEs?

- ☐ Strongly disagree
- ☐ Disagree
- ☐ Don't know
- ☐ Agree
- ☐ Strongly agree

46- Do you think the environment of the Saudi financial sector is capable of absorbing more SMEs and guide them to have long successful life?

- ☐ Strongly disagree
- ☐ Disagree
- ☐ Don't know
- ☐ Agree
- ☐ Strongly agree

47- In your opinion, does the Saudi capital market (Tadawal) attract you and other entrepreneurs to invest more in shares than involve in SMEs?

- ☐ Strongly disagree
- ☐ Disagree
- ☐ Don't know
- ☐ Agree
- ☐ Strongly agree

48- Do you know the Saudi Industrial Development Fund with ten of the Saudi banks established a program to guarantee appropriate funding for SMEs?

- ☐ Yes
- ☐ No (go to question 50)

49- What is your opinion about this programme?

- ☐ Strongly disagree
- ☐ Disagree
- ☐ Don't know
- ☐ Agree
- ☐ Strongly agree

50- What would you expect from the government in order to develop the SME sector in Saudi Arabia?

- ☐ Technical support
- ☐ Financial support
- ☐ Managerial support
- ☐ Accessibility to the capital market
- ☐ Other

51- Do you think Saudi banks in terms of financing SME are doing their best for their customers?

- ☐ Strongly disagree
- ☐ Disagree
- ☐ Don't know
- ☐ Agree
- ☐ Strongly agree

52- In your opinion, why do banks in Saudi Arabia not prefer using PLS to finance SME?
(Please rank the options, 1 being the most preferred, and 5 is the least preferred)

- ☐ The potential risk involve in the contract
- ☐ Not attractive for SMEs
- ☐ Less of competition

☐ The bank prefers to control the management of the project
☐ Other (please specify)

53- Do you think banks are the appropriate financial institution to finance SMEs through PLS mode of financing?
☐ Strongly disagree
☐ Disagree
☐ Don't know
☐ Agree
☐ Strongly agree

54- Do you think the less well-established of the venture capital in the Saudi financial market lead the SMEs investors to request funds from banks?
☐ Strongly disagree
☐ Disagree
☐ Don't know
☐ Agree
☐ Strongly agree

55- Do you agree that prospective financers of PLS will be better-off practicing by delegating to institutions supervised by SAMA?
☐ Strongly disagree
☐ Disagree
☐ Don't know
☐ Agree
☐ Strongly agree

56- Which financial institution is more compatible in term of using PLS as a mode of financing SMEs?
☐ Islamic banks
☐ Conventional banks
☐ Islamic financial institutions
☐ Conventional financial institutions
☐ Government development agencies
☐ Venture capital Company
☐ Other

Part 7
Future of PLS

57- If you have financed your business with PLS, please state if you are contented with it?
☐- Yes
☐- No

58- Do you think venture capital companies are more compatible to finance SMEs than other financial instruments?
☐ Strongly disagree
☐ Disagree
☐ Don't know
☐ Agree
☐ Strongly agree

59- What would you expect from prospectors of PLS in terms of financing SMEs?
.....
.....
.....

60- How can prospectors of PLS provide an appropriate method to finance SMEs?
.....
.....
.....

61- If you would be asked to think of new Islamic financial product for funding SMEs in Saudi Arabia, what would you come up with?

.....
.....
.....

62- One of the obstacles facing SMEs in Saudi Arabia is funding, what is your recommendation in order to tackle this problem under the permissibility of Islamic financial law?

.....
.....
.....

63- Please give your suggestions as to how the SMEs would have better services and finance under Islamic law?

.....
.....
.....

Personal Information:

64- Age:
- ☐ Under 25
- ☐ 25-34
- ☐ 35-44
- ☐ 45-54
- ☐ Over 54

65- Nationality:
- ☐ Saudi
- ☐ Non-Saudi

66- Religion:
- ☐ Muslim
- ☐ Non-Muslim

67- Education:
- ☐ Primary School
- ☐ Intermediate School
- ☐ High School
- ☐ University
- ☐ Postgraduate
- ☐ Other (Please specify)

68- Which one of the following category best describes you?
- ☐ Entrepreneur planning to start a new business
- ☐ Entrepreneur with an operating business
- ☐ Entrepreneur with an operating business and full-time government job
- ☐ Entrepreneur with an operating business and full-time private sector job
- ☐ Other (please specify)

69- How long experiences have you had in the business?
- ☐ No experience
- ☐ From 1 to 5 years
- ☐ From 6 to 10 years
- ☐ From 11 to 15 years
- ☐ More than 15 years